The Economist

July 2nd, 2011



Politics this week



Greece was again hit by strikes, protests and rioting, as the parliament voted in favour of a crucial new round of austerity measures and economic reforms. The European Union and the IMF are now expected to release the latest tranche of bail-out funds that Greece needs in order to avoid defaulting on its debt payments. Meanwhile, the French banking industry floated a proposal for an orderly restructuring of Greek debt that would involve private investors rolling over their holdings in bonds. See article

In **Britain** public-sector workers ranging from teachers to court officials to immigration officers went on strike against the government's proposed changes to their pensions. See article

Wen Jiabao, the Chinese prime minister, travelled to Hungary, Britain and Germany, signing billions of euros' worth of trade and investment deals and promising that China would lend a "helping hand" to troubled euro-zone peripheral countries. See article

Martine Aubry, leader of the **French Socialists**, said she would stand for the party's nomination to run against Nicolas Sarkozy in next year's presidential election. The Socialists will choose their candidate in a primary vote in October. See article

The patient

Venezuela suspended a development summit scheduled for July 5th because Hugo Chavez, the president, is still in Cuba recovering from surgery for a pelvic abscess. Mr Chavez has been out of the country for weeks, but Elias Jaua, the vice-president, has rejected calls to be sworn in as interim president during his absence.

The outgoing government of Alan Garcia in **Peru** rescinded a silver-mining concession granted to a Canadian company. The decision followed violent protests in the region of Puno to demand the cancellation of all mining and hydroelectric contracts in the country, which left five people dead.

The Court of Appeal in **Belize** ruled that the country's 2009 nationalisation of Belize Telemedia was unconstitutional. The government says it will not return the company to its prior private owners unless they secure a separate judicial enforcement order. See article

Looking for justice

The International Criminal Court at The Hague issued arrest warrants for **Libya's** leader, Colonel Muammar Qaddafi, his son, Saif al-Islam, and his intelligence chief, Abdulla al-Senussi, on charges of crimes against humanity. Meanwhile, rebel forces continued to advance on the capital, Tripoli. France confirmed that it had air-dropped weapons-mainly light arms and ammunition-to the rebels. See article



More than 1,000 people were injured in clashes in Cairo's Tahrir Square between police and people protesting against the slow pace of reform. **Egypt's** prosecutor-general said he would form a committee to investigate the violence.

At least 150 **Syrian** opposition figures met in public for the first time in the capital, Damascus, to declare their support for the uprising and call on President Bashar Assad to end his government's crackdown. Syria's army and security forces withdrew from Hama, the country's fourth-biggest city, where at least 73 people were reported to have been killed in clashes in June.

Nigeria's government imposed a curfew on Abuja, the capital, after a series of attacks by Boko Haram, an Islamist sect. On June 26th, 25 people were killed when a beer-garden was bombed in the city of Maiduguri in the state of Borno; another ten people died in another attack in the city on the same day.

Under an agreement brokered by the African Union, **Ethiopia** pledged to send 4,200 troops to keep the peace in the violently disputed oil-rich province of Abyei, which straddles the border between **Sudan** and **South Sudan**.

The UN said that a drought in the **Horn of Africa** was the worst in more than 60 years and was affecting 10m people.

A green but unpleasant land

Myanmar's state newspapers ran commentary warning Aung San Suu Kyi, the leader of the opposition democracy movement, that her continued political activity is unlawful and that her plan to tour the country could provoke chaos. The last time she toured the countryside her motorcade was attacked by a mob, apparently aligned with the government. Miss Suu Kyi was blamed for that incident.

Hu Jia, a prominent Chinese dissident, was granted a provisional form of release after three-and-a-half years in prison. Mr Hu was convicted of trying to subvert state power, after taking up the causes of AIDS patients and the environment. He was let out of prison only days after Ai Weiwei, a famous artist and activist, was allowed home on bail.

Lee Teng-hui, who became president of **Taiwan** after a long period of rule by Chiang Kai-shek and his son and who is widely credited with advancing democracy in the country, was indicted on charges of embezzlement. Mr Lee, with pro-independence views, remains a powerful political voice in Taiwan.

A UN-backed court in **Cambodia** conducted preliminary hearings in "Case 002", against the leaders of the Khmer Rouge for crimes committed in 1975-79. The case brings to trial the four highest-ranking members of the regime who are still alive, all of them old. Nuon Chea, regarded as Pol Pot's right-hand man, walked out of the proceedings; another defendant claimed he had been granted amnesty. See article

In **Afghanistan** NATO helicopters were called on to help repel an attack by suicide-bombers and gunmen on the Inter-Continental Hotel in Kabul, where many Westerners stay. At least 22 people were killed, half of them civilians. The Haqqani network, an insurgent group with ties to the Taliban, is suspected. See article

Pride



New York's legislature passed a bill legalising **same-sex marriage** that was quickly signed into law by Andrew Cuomo, the governor. The act doubles the number of gay American who can marry if they now wish. It is the biggest advance for gay rights in America since Massachusetts legalised gay nuptials in 2003. See article

The first ruling by a federal appeals-court on **Obamacare** decided that the mandate that Americans must have health insurance is constitutional. The matter is expected to end up in the Supreme Court.

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Business this week

The **IMF** selected Christine Lagarde as its new managing director. Ms Lagarde was the front-runner for the job from the moment Dominique Strauss-Kahn resigned in May. Her appointment came after America, China, Brazil and others lined up to back her bid, though some emerging-market countries continued to question the convention that only a European should head the fund. As French finance minister Ms Lagarde played a pivotal role in co-ordinating Europe's response to the euro area's debt crisis. See article

Francois Baroin was named as France's new finance minister, replacing Ms Lagarde. A hawk on balanced budgets, one of Mr Baroin's first tasks was to prepare for a meeting of euro-area ministers to discuss more aid for Greece. See article

Maple relief

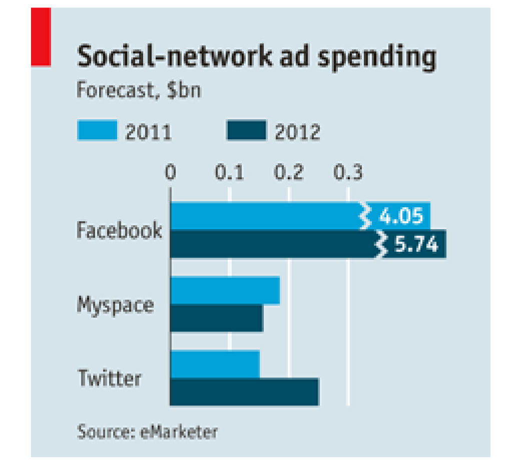
The Toronto and London **stock exchanges** scrapped their planned merger after failing to receive enough support from the Canadian operator's shareholders. The news was welcomed by Maple, an all-Canadian consortium that recently launched a hostile bid for the Toronto bourse.

Bank of America agreed to pay $8.5 billion to settle claims that mortgage-backed securities sold by Countrywide Financial, a distressed bank that BofA bought in 2008, contained loans that fell short of underwriting guidelines on things like borrowers' income and credit scores. BofA will book charges totalling more than $20 billion in the second quarter because of the settlement and other toxic-mortgage-related claims. See article

Lloyds Banking Group completed its strategic review. The bank, in which the British government retains a sizeable stake after a bail-out in 2009, is to shed a further 15,000 jobs and pull out of half the 30 countries in which it currently operates.

The Federal Reserve cut banks some slack on **debit-card fees**, one of the most controversial parts of the Dodd-Frank reforms. They will be allowed to charge double the 12 cents per transaction permitted under an earlier proposal, though this is still much less than the 44-cents average take today.

The wrong bet



News Corporation finally managed to sell off its troubled **Myspace** social-networking site in a deal that values the business at $35m. News Corp paid $580m for it in 2005. At the time, Rupert Murdoch, News Corp's boss, hailed it as a "great opportunity" and described Myspace as "one of the web's hottest properties".

After a three-month review the British government said it was "minded to accept" News Corp's proposal to take full control of **BSkyB**, Britain's biggest provider of satellite-television. News Corp owns several British newspapers. Most of the British press (on the right as well as the left) argue that it should not also be allowed to own a big broadcaster. In response to those worries, News Corp has offered to spin off Sky News. The government will make its final decision on July 8th.

Google's market dominance in internet searches came under renewed scrutiny. Just days after it confirmed that America's Federal Trade Commission had begun a formal investigation into its business practices, Google was taken to court by 1plusV, a French competitor which says it has been forced to choose Google's search methods in order to secure advertising services. See article

The International Energy Agency, the rich world's energy club, announced that member countries would release a combined 60m barrels of **oil** from reserves to offset the disruption to supply in Libya. America is to provide half of this. The effect on oil prices was fleeting: they fell sharply after the IEA's intervention, but rebounded within a few days. OPEC advised the agency not to "disturb the market".

Diageo, a global drinks company based in London, announced that Chinese regulators had approved its offer to take control of **Shui Jing Fang**, a well-known *baijiu* (or "white spirit") label. Diageo owns Gordon's Gin and Captain Morgan rum, among other brands. Its majority stake in a distinguished Chinese alcohol producer is seen by some as an indication that China is more open to foreign takeovers than had been thought, especially after Coca-Cola's attempted acquisition of a juice company was blocked in 2009.

Mortal Kombat

America's Supreme Court struck down a law in California that had banned the sale of **violent video games** to children. The decision represents a big victory for the video-gaming industry, and is viewed as more proof that this may be the most business-friendly Supreme Court in decades. Writing for the majority, Justice Antonin Scalia maintained that there was "no tradition" in America of "restricting children's access to depictions of violence...'Grimm's Fairy Tales', for example, are grim indeed."

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KAL's cartoon

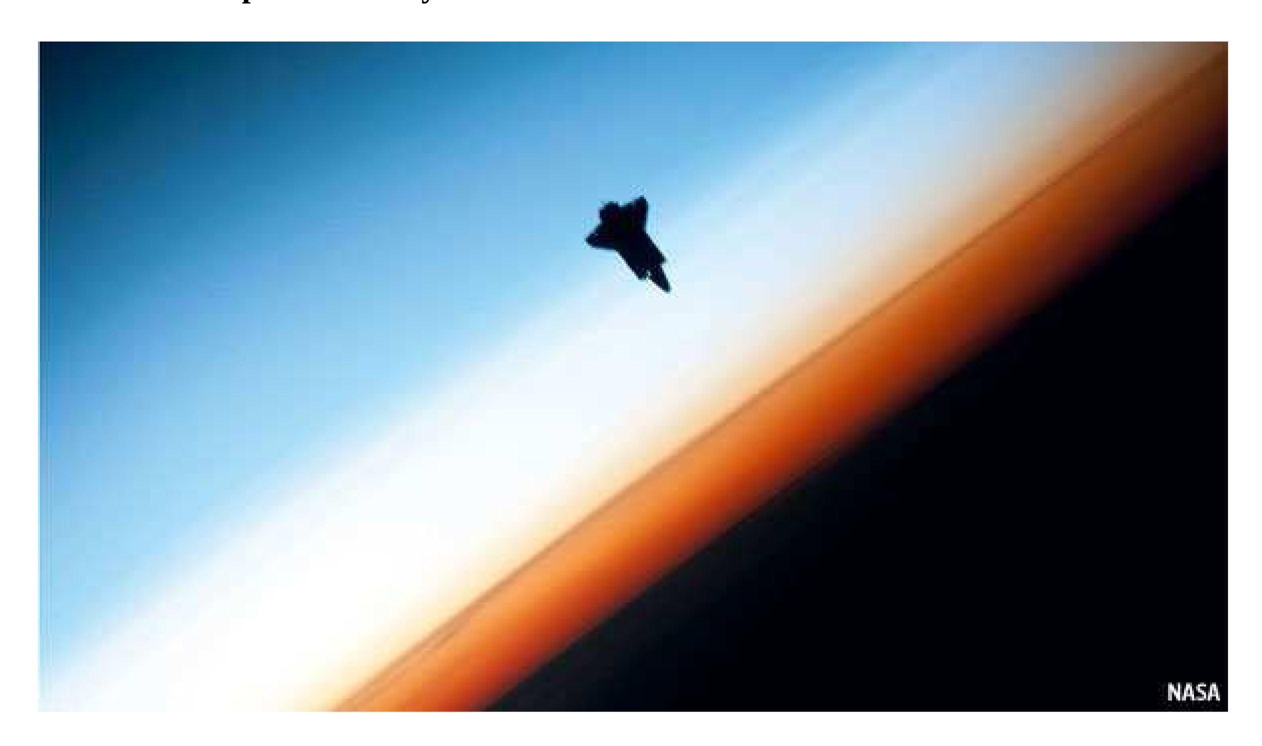


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Space exploration

The end of the Space Age

Inner space is useful. Outer space is history



HOW big is the Earth? Any encyclopedia will give you an answer: its equatorial diameter is 12,756km, or, for those who prefer to think that way, 7,926 miles. Ah, but then there is the atmosphere. Should that count? Perhaps the planet's true diameter is actually nearer 13,000km, including all its air. But even that may no longer be an adequate measure. For the

Earth now reaches farther still. The vacuum surrounding it buzzes with artificial satellites, forming a sort of technosphere beyond the atmosphere. Most of these satellites circle only a few hundred kilometres above the planet's solid surface. Many, though, form a ring like Saturn's at a distance of 36,000km, the place at which an object takes 24 hours to orbit the Earth and thus hovers continuously over the same point of the planet.

Viewed this way, the Earth is quite a lot larger than the traditional textbook answer. And viewed this way, the Space Age has been a roaring success. Telecommunications, weather forecasting, agriculture, forestry and even the search for minerals have all been revolutionised. So has warfare. No power can any longer mobilise its armed forces in secret. The exact location of every building on the planet can be known. And satellite-based global-positioning systems will guide a smart bomb to that location on demand.

Yet none of this was the Space Age as envisaged by the enthusiastic "space cadets" who got the whole thing going. Though engineers like Wernher von Braun, who built the rockets for both Germany's second-world-war V2 project and America's cold-war Apollo project, sold their souls to the military establishment in order to pursue their dreams of space travel by the only means then available, most of them had their eyes on a higher prize. "First Men to a Geostationary Orbit" does not have quite the same ring as "First Men to the Moon", a book von Braun wrote in 1958. The vision being sold in the 1950s and 1960s, when the early space rockets were flying, was of adventure and exploration. The facts of the American space project and its Soviet counterpart elided seamlessly into the fantasy of "Star Trek" and "2001: A Space Odyssey". Other planets may or may not have been inhabited by aliens, but they, and even other stars, were there for the taking. That the taking would begin in the lifetimes of people then alive was widely assumed to be true.

No longer. It is quite conceivable that 36,000km will prove the limit of human ambition. It is equally conceivable that the fantasy-made-reality of human space flight will return to fantasy. It is likely that the Space Age is over.

Bye-bye, sci-fi

Today's space cadets will, no doubt, oppose that claim vigorously. They will, in particular, point to the private ventures of people like Elon Musk in America and Sir Richard Branson in Britain, who hope to make human space flight commercially viable. Indeed, the enterprise of such people might do just that. But the market seems small and vulnerable. One part, space tourism, is a luxury service that is, in any case, unlikely to go beyond low-Earth orbit at best (the cost of getting even as far as the moon would reduce the number of potential clients to a handful). The other source of revenue is ferrying astronauts to the benighted International Space Station (ISS), surely the biggest waste of money, at $100 billion and counting, that has ever been built in the name of science.

The reason for that second objective is also the reason for thinking 2011 might, in the history books of the future, be seen as the year when the space cadets' dream finally died. It marks the end of America's space-shuttle programme, whose last mission is planned to launch on July 8th (see article, article). The shuttle was supposed to be a reusable truck that would make the business of putting people into orbit quotidian. Instead, it has been nothing but trouble. Twice, it has killed its crew. If it had been seen as the experimental vehicle it actually is, that would not have been a particular cause for concern; test pilots are killed all the time. But the pretence was maintained that the shuttle was a workaday craft. The technical term used by NASA, "Space Transportation System", says it all.

But the shuttle is now over. The ISS is due to be de-orbited, in the inelegant jargon of the field, in 2020. Once that happens, the game will be up. There is no appetite to return to the moon, let alone push on to Mars, El Dorado of space exploration. The technology could be there, but the passion has gone-at least in the traditional spacefaring powers, America and Russia.

The space cadets' other hope, China, might pick up the baton. Certainly it claims it wishes, like President John Kennedy 50 years ago, to send people to the surface of the moon and return them safely to Earth. But the date for doing so seems elastic. There is none of Kennedy's "by the end of the decade" bravura about the announcements from Beijing. Moreover, even if China succeeds in matching America's distant triumph, it still faces the question, "what next?" The chances are that the Chinese government, like Richard Nixon's in 1972, will say "job done" and pull the plug on the whole shebang.

No bucks, no Buck Rogers

With luck, robotic exploration of the solar system will continue. But even there, the risk is of diminishing returns. Every planet has now been visited, and every planet with a solid surface bar Mercury has been landed on. Asteroids, moons and comets have all been added to the stamp album. Unless life turns up on Mars, or somewhere even more unexpected, public interest in the whole thing is likely to wane. And it is the public that pays for it all.

The future, then, looks bounded by that new outer limit of planet Earth, the geostationary orbit. Within it, the buzz of activity will continue to grow and fill the vacuum. This part of space will be tamed by humanity, as the species has tamed so many wildernesses in the past. Outside it, though, the vacuum will remain empty. There may be occasional forays, just as men sometimes leave their huddled research bases in Antarctica to scuttle briefly across the ice cap before returning, for warmth, food and company, to base. But humanity's dreams of a future beyond that final frontier have, largely, faded.

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Libya

Keep calm, keep going

The world must intensify the pressure against Muammar Qaddafi-and help plan for the future

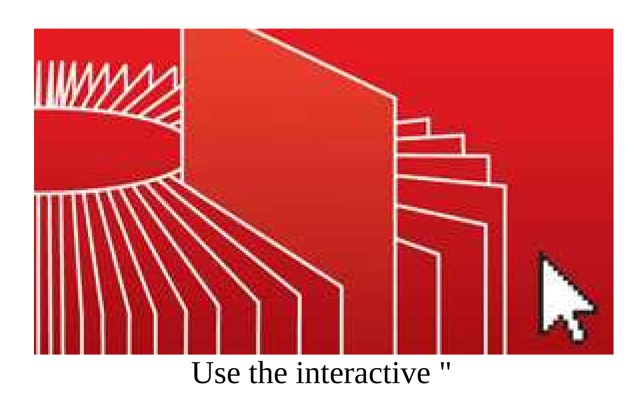


THE voices of those who prophesy doom in Libya are becoming ever louder. The fracas, they say, should never have concerned the West, which has no great interest in the place. The Americans want less and less to do with it. Barack Obama, scolded by many in Congress for getting involved in the first place, is hiding in NATO's back seat. Generals in Britain and France, who are shouldering much of NATO's campaign burden, are complaining about the stress and strain on their forces in trying to bring down Muammar Qaddafi. The Gulf Arabs are loth to cough up the cash they promised to support the rebels.

There is no timetable and no exit plan, say the pessimists. The rebels are a shoddy lot who are likely, if they get into power, to be no nicer than what went before. Moreover, it is all about tribes, not democracy, and Colonel Qaddafi plainly has a lot of them on his side. To cap it all, NATO, in its frustration at failing to remove the regime in a trice, is killing civilians-the very crime it was meant, under UN Security Council Resolution 1973, to prevent. In short, it is a dreadful mess, with no obvious way out.

Some of what they say is right. The Americans are indeed losing the will to fight. But the picture they present of what's going on in Libya is distorted. There is no stalemate: the campaign is heading steadily in the right direction. The colonel's territorial writ is shrinking. His oil is running out. Defections from his camp are mounting. His days in power, perhaps also on this earth, are numbered. The leading rebels, though inevitably a mixed bunch, make incomparably more sense than the unhinged colonel. They do not represent only the east. Like-minded people in Tripoli are keen to join hands with them (see article). Tribal factors count but do not cancel out a general thirst for freedom as well as unity. And NATO has rightly taken care to avoid civilian targets, though some tragic mistakes have inevitably been made.

The big hope is that the regime in Tripoli will fizzle from within rather than be swept away by an advancing rebel army. Mindful of American mistakes in Iraq, the rebels have sensibly stated that civil servants and members of the army and police, bar those who are stained with blood, will be welcome to serve under a new order. They have called for a free press, freedom of association, a plurality of parties and open elections. If Colonel Qaddafi were unconditionally to accept the need for all of this, it might be worth negotiating with him. But no such possibility seems conceivable at present. This week the International Criminal Court at The Hague issued a warrant for his arrest.



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It will be for the Libyans to plot their own future. But in the immediate post-Qaddafi phase, outside help will be vital. The United Nations is pondering the rapid creation of a ceasefire-monitoring team, with Turks, Jordanians and perhaps some of the beefier Africans to the fore; a bigger force of peacekeepers may be necessary later but would take time to create. A new order will most urgently need robust policing rather than armed force.

The West does indeed have a dog in this fight: if Colonel Qaddafi can be replaced by a decent regime, the forces of modernity and reform across the Arab world will get a huge fillip, which in turn will benefit the West in a host of economic and political ways. And if he stays put, the tyrants will take succour. So the West must hold its nerve, increase the military pressure, buttress the rebels, and accept that the campaign may last several more months. It could end a lot sooner. Whenever it does, the world must be ready for the next phase.

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Greece and the euro

The abuses of austerity

A new plan to cut Greece's debt looks doomed to fail



SOME years back a Greek finance minister, fed up with his country's waste and extravagance, claimed that he could save money by shutting down the national railway and driving its passengers around in taxis. He was accused of hyperbole but seems, rather, to have been guilty of understatement. In 2009 the Greek railway collected just euro174m ($250m) in fares and other revenues. Meanwhile, it spent euro246m on wages and lost a total of euro937m.

On June 29th, with tear gas billowing around the rioters outside the Greek parliament, politicians in principle backed a new punishing austerity plan. As *The Economist* went to press, they were expected to implement the austerity plan in a second vote. That would open the way for the euro-zone countries to approve a second rescue package for Greece likely to be worth around euro120 billion.

Alas, Greece's austerity plan looks doomed to fail. It does too little to prevent the epic folly of Greece's railways and other ruinous schemes. It will screw down too hard on ordinary Greeks, with new taxes, spending cuts and a rushed privatisation scheme. And it will almost certainly condemn Greece to recession, strife and an eventual debt default.

Greece needs reform as surely as ouzo gives you a headache. Its economy is sickly. Its debt, due to surpass 160% of GDP in the months to come, is unsustainable. The plan does not reduce that-and French machinations to roll some private-sector debt into a "voluntary" package of cash and long-term bonds may make an eventual restructuring harder (see article). The government cannot finance its own budget deficit and will run out of money by mid-July without financial help from the rest of the European Union and the IMF. Because the austerity plan is the price of that help, Greece's politicians had no choice but to vote for it. But nobody should be under any illusions about what they have signed up to.



Explore our

The economics of the plan are too zealous. The attempt to raise just over euro14 billion in new taxes over the next five years will further depress the economy, so the extra levies will raise less than expected and the country's debt will be even harder to bear. The planned privatisation of euro50 billion-worth of firms and land also looks set to fall short, partly because the forecast prices are over-optimistic and partly because organising a sale every ten days or so is unfeasible. In

theory privatisation has the scope to restructure the economy, but a fire sale risks letting the choicest assets fall into the hands of cronies who will manipulate regulation to suit themselves.

By contrast, the politics of the plan is too timid. It avoids taking on powerful lobbies who benefit from wasteful public spending. For example cuts in medical spending of euro310m are promised this year. That might sound like a lot, but Greece's over-generous markups to pharmacists add something like euro1.5 billion a year of extra spending to its drugs budget alone. The government also seems to lack the stomach to see its plan through. It has said that it will cut civil-service jobs-but the suspicion is that those on temporary contracts, not the expensive and virtually unsackable people on permanent contracts, will go. Even the railways, which are down for privatisation, may well be sold with guarantees protecting jobs and services.

On the wrong track

Making Greece's economy work better would mean far greater changes to a dysfunctional state. That means defeating the unions, important allies for the politicians. It would also mean dismantling the system of patronage, on which politicians thrive. Whether you are after a government job, a licence, or a favourable tax assessment, politicians are essential allies. Greece needs transparent and impartial rules, but politicians are not keen to limit the scope for dishing out favours. Anyway, Greece's politicians reckon that so long as they pretend to fix their country, the EU will hand over the money whether the plan succeeds or not. After all, who wants to pull the plug on Greece if that risks contagion across the euro zone?

Every quarter, before the euro-zone countries and the IMF release the next tranche of aid, they must decide whether Greece is on track. Every quarter, it will become clearer that the answer is no.

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China abroad

Welcome, bienvenue, willkommen

America needs to worry about the contrast between its attitude to China and Europe's



IN EUROPE, the red carpet. In America, a red mist. This week's tour of European capitals by Wen Jiabao, China's prime minister, underlined the stark transatlantic difference in responses to China's economic clout. European leaders, caught up in the euro area's crisis, want China to buy more of their debt; American politicians worry that it owns too much of theirs. For European politicians the value of the yuan is one worry among many; it sometimes feels like Americans can think of little else. In Europe, Chinese firms are broadly welcome; in America, they are often viewed with suspicion.

Europe's receptiveness to China is born partly of weakness. Delegations from peripheral euro-zone countries have been flying into Beijing to seek buyers of their debt. Fixers working for Chinese companies report a steady stream of inquiries

from cash-strapped European firms. But even among Europe's stronger economies, the political bias is to promote investment from China, not deter it (see article).

Middle Kingdom meets Mittelstand

That stance will have big consequences. China's foreign direct investment to date has focused on securing the energy and resources that its industrialising economy craves. Chinese money has been visible in Asia, Africa and Latin America, buying up everything from copper mines in Peru and farmland in Tanzania to aluminium smelters in Australia. But the next stage in China's emergence is under way and it will centre on Europe.

To understand why, consider each of the world's three largest economic powers in turn. China wants to climb the development ladder. Its burgeoning domestic markets are fiercely contested, so its firms want new sources of advantage like Western brands and marketing expertise. Its export-oriented firms want to lock in closer ties with end-customers.

America is the natural place for China to turn to but the economic relationship between the superpower and the dragon breathing down its neck is fraught. Ever since CNOOC, a state-controlled Chinese oil firm, was forced out of the bidding for California's Unocal in 2005 by congressional and media critics, many big Chinese companies have regarded America as fundamentally hostile to their investments.

This perception is not entirely fair. The process for screening inward investments into America on security grounds does not appear to discriminate against China. But Chinese companies wanting to buy American assets must be prepared to risk public attacks by wealthy lobby groups and frothing congressmen. Many choose to avoid America instead. A report by the Asia Society in Washington, DC, says that scaremongering about China could lead America to forfeit a share of $1 trillion-worth of outward Chinese direct investment by 2020.

More of that cash is instead heading to Europe. Investment bankers there are now sure to dial Chinese clients if they hear that a firm is a possible bid target. Chinese banks are rapidly increasing their presence in Europe. Mainlanders are snapping up central London residences. Chinese direct investment abroad has increased faster in Europe than in any other region.

The Europeans get more than just money. A Chinese partner is a good way for a European brand to gain access to the world's soon-to-be-biggest economy. Ask France's Club Med, which now has a big Chinese shareholder and recently opened its first holiday resort in the country. Or CIFA, an Italian construction-equipment maker whose products are now marketed as a premium brand by its Chinese owner. Or Sweden's Volvo, which was bought by Geely, a Chinese carmaker, in 2010 and now calls China its "second home market".

European voters are less happy about all this than their leaders: polls show that they view Chinese investments nearly as negatively as Americans do. Three worries predominate. The first is that China will strip Europe of technology and jobs. It is true that Chinese firms are often interested in buying European companies to use their know-how in China (or worse, to steal it). But Chinese firms want to conquer markets abroad as well as at home, and to do that in Europe, they must create jobs there. The second fear is that the Chinese are buying European jewels on the cheap. But there's no evidence for that. Indeed, they are more likely to overpay: countries and firms with excess savings nearly always do. The third concern is that investments in assets like utilities and mobile technology threaten Europe's security. But processes exist to screen foreign investments on those grounds. There's no reason to think that they are wanting, and no reason to tighten them until that changes.

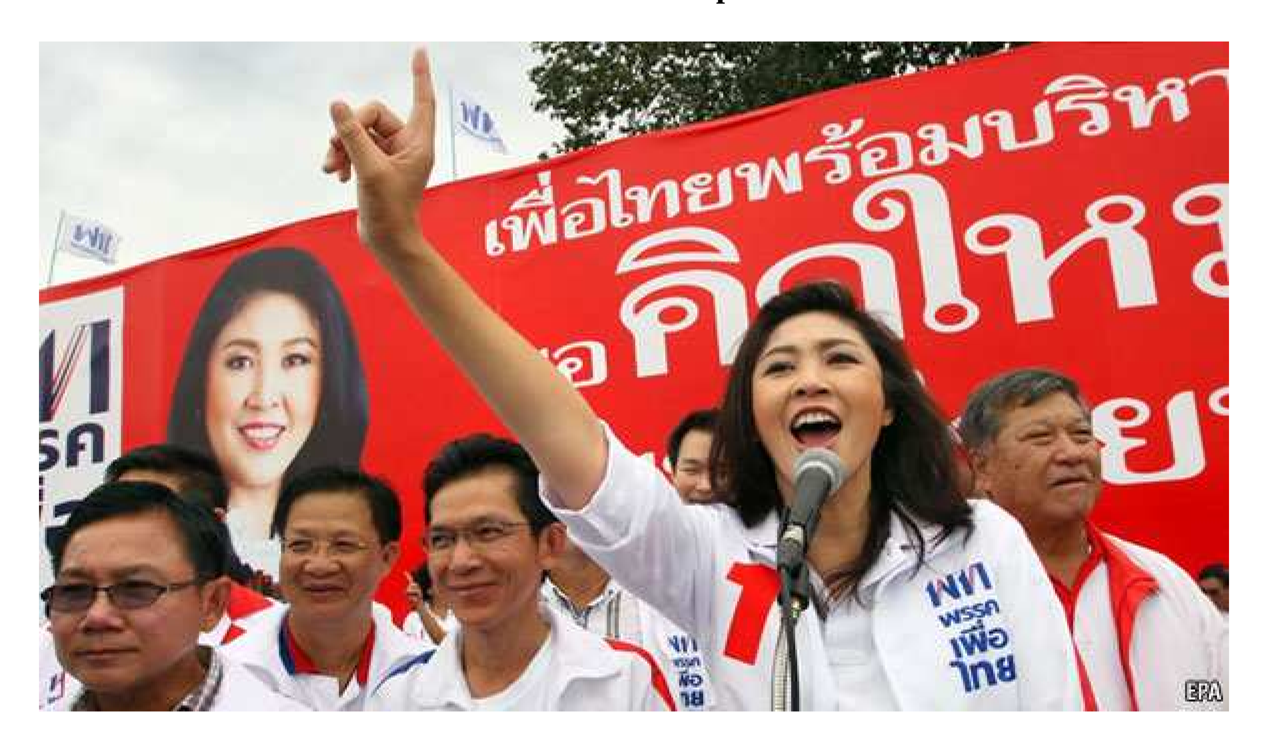
China's outward march certainly argues for vigilance, for it is the consequence of a huge shift in the balance of power, and change always involves risk. But the opportunities are greater than the dangers. In welcoming China, Europe is swimming with the tide of history; America is struggling against it.

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Thailand's election

Hands off the result

Who wins Thailand's election matters less than how the loser copes with defeat



THAT Thailand is holding a general election at all on July 3rd is welcome. That the campaign to date has been more peaceful than expected comes as a relief. After an army coup in 2006 ousted Thaksin Shinawatra, the former prime minister now living in exile in Dubai, politics in Thailand fled parliament for the streets, leading to colour-coded stand-offs and violence: last year central Bangkok became a battlefield, when more than 90 people died during the suppression of protests by pro-Thaksin "red shirts". Now, against recent odds, many Thais dare hope that the election will mark a clean break from the recent gridlock and violence, and that politics will move back from the streets to parliament. After all, that is what both main parties say they want.

Both parties also make a play of listening to the concerns of the large numbers of poor Thais who have long felt marginalised in an over-centralised country dominated by a Bangkok elite. These have long been Mr Thaksin's electoral base, which has been re-energised by a woman whom Mr Thaksin calls his "clone": his good-looking younger sister Yingluck, head of the Pheu Thai party. But the Democrat Party, led by the prime minister, Abhisit Vejjajiva, has also borrowed Thaksinite prescriptions, such as promises of free or cheap access to health care and education.

Puppet versus clone

Mr Abhisit and his key government ally, the finance minister, Korn Chatikavanij, say they are cosmopolitan, fiscally conservative market liberals. But they have not ruled as such. And the prime minister has one huge point against him: he owes his position to an army-backed stitch-up. However well-meaning, he has been shaped by events instead of controlling them. The suspicion remains that in a crisis he is still the puppet of what is often described as the "irresistible force" of the army and the monarchist establishment.

Meanwhile, Ms Yingluck is running a slick and brilliant campaign. She deserves credit for a conciliatory tone. She promises not to avenge the coup or to rush into pardoning and bringing home her brother. But there are doubts about her sincerity, worries about her inexperience and a real fear that her brother may overrule her and rush home. His unbrokered return would probably be disastrous, taking the country back to the brink of breakdown. Another risk is that Pheu Thai's spending promises prove ruinous; though with luck, Ms Yingluck-a successful businesswoman in her own right-has the nous to recognise that Thailand cannot afford her most extravagant promises.

Pheu Thai has pulled ahead in the polls. The powerful people in the military and monarchist camps who are used to running Thailand do not like this. Having overthrown Mr Thaksin in a coup and backed the toppling of elected pro-Thaksin governments through parliamentary and legal manoeuvres, the army will not cheer a Pheu Thai victory. But it has amply showed what a mess it makes of politics, and should stay firmly in its barracks now. Whatever the doubts about Ms Yingluck, if Thais vote for her their choice must be heeded.

Mr Abhisit's other powerful supporters among the monarchists and the Bangkok rich are similarly loth to accede to the electorate's infuriating habit of returning unacceptable governments. They too must accept the result, whatever it is. Pheu Thai is more likely to win a plurality than a clear majority and then try to entice a few small, venal parties into a governing coalition. If it handsomely beats the Democrats yet is kept from power by a blocking coalition or by the disqualification through the courts of some of its candidates, its supporters will feel, yet again, that they have been cheated. They may abandon hopes for change through the ballot box.

The election was the easy part. The difficult bit comes now. Two huge issues-devolving power away from Bangkok and defining the future role of the monarchy-were ignored in this campaign. If they are to be addressed, the normal process of government must resume; and for that to happen, the losing party must learn to behave as a loyal opposition.

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Letters

On the National Health Service, Tim Pawlenty, Sweden, liberals, Italy

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Letters are welcome via e-mail to letters@economist.com

Innovation and health care



SIR - Schumpeter displayed a touching faith in technology and innovation to make us healthier more cheaply (June 18th). But as usual, the conversation about saving money in Britain's National Health Service got cornered into the few areas of care that can be treated at "focused factories", or those few diagnoses that have "measurable indicators". I am fascinated by the prospect of my next suicidal patient being invited remotely to scan his or her preferred health-care treatment out of an NHS supermarket. If Schumpeter is serious about saving money, I don't think his suggestions will make any sort of impact on the messy and ill-defined interactions that characterise primary care, which is where most of the NHS budget is spent.

I do agree that the NHS is not responsive enough to patients' wishes or needs; this comes across loudly and consistently from the public. But progress is being made to try to improve this within GP (or family doctor) training. In order to pass exams now, trainees have to show that they have tried to put the patient's contribution at the centre of decision-making.

The NHS does need to change and to save money. But opposition to this government's particular set of reforms is not the same as opposing innovation, as Schumpeter lazily assumes.

Jenny North
Matlock, Derbyshire

SIR - Many good points were made in Schumpeter's column on what the NHS could learn from other countries. Several of us in the health professions have battled exhaustively to make efficiency changes and all too often found ourselves blocked by decrepit management structures.

However, it is a mistake to lump the NHS's many parts together as an embattled ship fighting off the storms with a determination to remain unchallenged. Quiet revolutions are happening. Also, R&D and teaching are two important aspects of the NHS not mentioned in the column. Those are vital functions that cannot be maintained if hospitals develop a factory mentality across the board.

Francis Wells
Consultant cardiac surgeon
Papworth Hospital
Cambridge, Cambridgeshire

SIR - Schumpeter marvelled at the provision in America of "computerised lifestyle coaches" that send patients "e-mails telling them to modify their behaviour", health-care firms that allocate "diabetes sufferers a diabetes specialist" and a hospital that "has reduced hospital admissions for older patients by more than 30% by using remote monitors". Yet none of these cost-cutting "innovations" could properly be considered as actual, and expensive, medical care.

Just see what happens when you get a truly dreadful illness and your insurance company wants to haggle over the treatment. I do not think a "computerised lifestyle coach" would come in very useful then.

Gregory Horowitz
New York

Pawlenty's magic budget tricks



* SIR - You said that Tim Pawlenty balanced Minnesota's budget when he was governor of the state ("A beatable president", June 11th). It is true that Mr Pawlenty balanced each two-year state budget and that he left behind a surplus for the current fiscal year of $663m, according to the most recent forecast. But he did so through trickery. Minnesota now faces financial problems because Mr Pawlenty used short-term funding manoeuvres during his tenure to patch over shortfalls and to put off tough decisions to align Minnesota's tax base with its government spending.

Minnesota's projected budget gap for fiscal 2012 is more than $5 billion. Expressed as a percentage of the state's total general fund, Minnesota ranks fourth-highest in the nation, behind Alabama, Nevada and California, according to the non-partisan National Conference of State Legislatures.

Olof Nekstad
Minneapolis

Sweden's wealth tax

* SIR - Your article on the Swedish economy ("North star", June 11th) rightly commented that part of the spectacular results in Sweden have been, inter alia, that "inheritance and wealth taxes have gone".

I think it is worth noting that inheritance tax was abolished on January 1st 2005 by Goran Persson, who was then in charge of the Social Democratic government, and at the same time gift tax between individuals was abolished. Then Fredrik Reinfeldt came into power with the Moderate coalition government, and on January 1st 2007 abolished wealth tax. In addition from July 2007 Sweden instituted a tax relief that enables individuals to offset their gross tax expenses relating to the employment of home help or gardening and certain home maintenance. This last relief is actively used, and had done much to abolish the black economy.

It should also be noted that after these changes the bien-pensants kept quiet and there were no street protests. One of the results has been that wealthy Swedes are repatriating themselves and their capital to Sweden.

Bernard Kelly
London

Prejudiced liberals



SIR - Your review of Owen Jones's book on the "demonisation of the working class" in Britain skirted around the political issues ("Giving the poor a good kicking", June 18th). Derogatory terms such as "chavs", just like "redneck", "trailer trash" or, indeed, "white trash", are now completely acceptable to urban liberals, whereas the poor from other ethnic groups are treated with respect, assumed to be the victims of structural racism, and thus are not to blame for their predicament.

Politically, this view of poor whites is a factor contributing to the populist backlash in America and Europe against liberal parties, which used to be staunch defenders of the working class but have abandoned this constituency in favour of hipper minorities.

Oskar Lindstrom
Stockholm

Italy's recent history

SIR - Your special report on Italy (June 11th) echoed a prejudice that is also common among Italians who take pleasure in denigrating themselves. Yet there have been generations of patriots for whom Italy was something serious. In the mid-19th century a great political and cultural movement was born that inspired writers such as Manzoni and composers like Verdi, and encouraged debate among thinkers of the calibre of Cavour, Rosmini, Cattaneo, Gioberti and Mazzini.

Moreover, it is not true that "the people" were not part of the *Risorgimento*. In 1848 all the great cities of Italy rose up: Messina, Palermo, Naples, Rome, Florence, Venice, Genoa, Milan. Indeed, after the uprising Carlo Cattaneo, one of the *Risorgimento*'s leaders,visited the city morgue to find that 400 Milanese labourers and artisans had died in the fighting. Garibaldi demonstrated to Europe that Italians were able to fight and die to regain their homeland. This remains true today.

Italian soldiers are sacrificing themselves in Afghanistan and the Middle East, for their families, certainly, but also for their country.

This too is a small sign that we Italians are much more attached to the idea of Italy than we pretend. To reduce national pride to colonial adventurism and military aggression is to do a grave injustice to men and women whose stories Europeans should learn more of.

Aldo Cazzullo
Rome



SIR - Since 2001 Italy has dropped from 40th to 49th in the World Press Freedom Index and from 31st to 67th in the Corruption Perception Index. Corruption is estimated at euro100 billion ($142 billion) in the public sector alone. After the "fiscal-shield" law, recycled funds now stand at an estimated 10% of GDP. Tax evasion is thought to cost euro120 billion, with a minuscule likelihood of having to cough up if caught.

While ordinary Italians pay over euro400 billion a year for this illegality, your report recommended more of the kind of "fiscal responsibility" and austerity that makes things worse for ordinary taxpayers. It would be more fiscally responsible to attack tax fraud, corruption and organised crime. This would also be the easiest way to produce demand-led growth by reducing tax burdens on ordinary citizens and companies, as well as reducing the motives people have for adopting nepotistic business strategies. The answer is not liberalisation, but legality.

Andrea Teti
Co-director, Interdisciplinary Approaches to Violence Programme
University of Aberdeen



SIR - Say what you will about Italy. I'll lodge within the stone walls of a Tuscan villa built in 1166, sip Brunello by its pool to the bells of an 8th-century abbey, dine on *pecorino* cheese and *pici* pasta with a *funghi e ricotta* sauce, eat quail in the Etruscan vault of Osteria da Divo in Siena, drink my espresso on the Piazza del Popolo in Montalcino, or just soak in the red carpets of the Tuscan poppy fields. You can worry about the rest.

Edmund Adams
Cincinnati, Ohio

SIR - I refer you to some apt lines uttered by Orson Welles in "The Third Man": "In Italy for 30 years under the Borgias they had warfare, terror, murder, and bloodshed, but they produced Michelangelo, Leonardo da Vinci and the Renaissance. In Switzerland they had brotherly love, they had 500 years of democracy and peace, and what did that produce? The cuckoo clock."

Mathias Koenig-Archibugi
London

* Letter appears online only

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Syria

The squeeze on Assad

The regime of Bashar Assad is tottering. His fall would probably trigger a short-term surge in violence, but a better government would emerge



Patience, weapon as well as virtue

IT WAS the biggest meeting of its kind for decades: under the watchful eye of President Bashar Assad's security goons, 150 dissidents, veteran opposition figures and former political prisoners met in Damascus on June 27th to denounce the regime's brutality and demand a peaceful transition to democracy. The street protesters dismissed the conference as a compromise with the regime. They want no truck with it. "We hate the government," says one young man who was detained and tortured. "That's all that counts now." Other demonstrators parody Muammar Qaddafi's threat to hunt down opponents "alley by alley". "Alley by alley, house by house," they chant, "We want your head, O Bashar." But the Damascus meeting, and uprisings in towns such as Hama and Deir ez-Zor, shows that Syria's opposition has gone from being a few scattered groups holding spontaneous, isolated protests in March to become a nationwide force.

More than 100,000 people now demonstrate every Friday and the regime cannot rein them in, though it has closed roads to restive towns, reinforced the borders and restricted access to the internet. Demonstrations have been held in at least 150 towns and villages in all corners of the triangle-shaped country. Malls and souks are deserted. Cafes are half-full, the smell of cardamom coffee and cherry tobacco spicing the habitues' anxious questions.

Will Syria end like Egypt and Tunisia? It seems unlikely, at least in the short run. In those countries the army sided with the protesters, whereas in Syria it has not. Might Syria follow Libya's example? So far, there are no signs of a regional split. What about Iran, which brutally and successfully crushed a revolt in 2009 and which is a close Syrian ally? Even that is different. Iran is run by an elected government (though the poll was rigged), not a single family. It has endless oil reserves; its sectarian divide is minor and its security forces more sophisticated. Syria's have so far killed 1,500 people, ten times as many as in Iran. Most significantly, the Assad regime-half a dozen family members call the shots-has acted erratically. Bashar, the president, swings between brutal crackdowns and vacuous concessions. That does not bode well for a dictator under pressure.

In contrast, Syria's opposition is becoming more coherent, as well as more widespread. It is centred on a youth movement based outside the capital. Its detractors are right when they say that few articulate leaders have emerged, no formal structures exist and many of the demonstrations have taken place outside big cities.

But this is no peasant revolt. It has the support of large parts of the Sunni Muslim clergy. University graduates and longstanding dissidents, on the fringes at first, now march alongside day labourers. Political parties are being revived, including a Liberal Party which was stillborn six years ago. The city of Hama-site of a massacre of protesters ordered by Mr Assad's father in 1982-slipped briefly out of official control in May. In recent days the security forces seem to have withdrawn from the city altogether.

The protesters are resilient partly because they are organising themselves into many small groups. Activists are setting up cells of about 20 people, connected to each other by only one leader. Some networks rely on the anonymity of the internet. But with only about a fifth of Syrians online, traditional bonds are more important. Tribal, professional and collegiate relationships of trust are harder to shut down than phone lines.

But if their organisation is loose, the protesters show a remarkable unity of purpose. They want what everyone in the Arab spring wants: elections, freedom of speech and assembly, protected status for minorities, an end to the regime's repression. Some organisers have asked eminent economists for advice on market reforms. They show political sophistication by talking of a "civil" democracy, not a "secular" one. To many Muslims, secular means godless and wayward.

If the demonstrators were to topple the government, they could draw on capable technocrats to form an interim administration. Among them is Abdullah Dardari, a former deputy prime minister and senior United Nations official, who is liked from Washington to Riyadh. He was Mr Assad's chief economic reformer until he was fired soon after the protests started-a target for the regime's hardliners and a scapegoat for its failings.

In the past the Assads have relied on public indifference as well as outright repression. Syrians used to look at neighbouring Lebanon and Iraq and conclude that stability mattered more than freedom. But the killing of so many countrymen this year is changing that view. "We have become citizens, when once we were sheep," says a middle-class Damascene. Fear of the security forces, which once kept millions at home, is ebbing. No authoritarian state can survive a sustained decline in its authority-and the government's writ is shrinking visibly. The police no longer issue speeding tickets or parking fines. Unlicensed traders in the souks-once chased away-now occupy prime spots. Illegal construction is rampant. "Everyone is adding a new floor to their house," says a home owner. "Officials no longer object."

Above all, the killings and detentions are failing to cow the protesters. Torture victims have become protest organisers. At an underground meeting in June, one of many victims of the regime described being doused in cold water before being electrocuted by cables attached to his genitals. His aim-to inspire, not scare, the protesters-seemed to be achieved.

The momentum of change may accelerate soon. Ramadan begins in early August and many Syrians will then start to visit their mosques, rallying points for the demonstrations, daily, rather than weekly. The protest leaders think this may prove a turning point: "Friday every day," they say.

Many Western observers are sympathetic to the protesters but sceptical of their strength and coherence. What matters more is the regime itself. Its power is fast eroding. It could collapse under the weight of its own failings.



Brick wall ahead

The immediate threat comes from the economy. Business activity is down by about half, according to entrepreneurs and analysts. A company selling car-engine oil has seen sales drop by 80%. "And this is not a luxury product," says one of the owners. Most firms have sacked employees or cut pay or both. According to rough estimates, unemployment has doubled this year from about 10%. Officials worry that grain supplies are low and food shortages could come soon. Trade is down between 30% and 70%, depending on where you are, and that was before a new round of sanctions imposed by the European Union, Syria's biggest trading partner. Foreign investment, on which Syrian growth has been built in recent years, has dried up. In a recent speech, Mr Assad talked about the threat of "economic collapse".

Public finances are in deep trouble. The president has raised government salaries and various subsidies to appease the populace. He cannot afford to do this. The government will probably print the money to meet its promises, so runaway inflation is likely, further fuelling popular anger as cash deposits become worthless.

Capital flight is rampant. Drivers on the roads into Lebanon talk of clients going from their bank in Damascus straight to one in Beirut, carrying large bags. According to one estimate, $20 billion has left the country since March, putting pressure on the Syrian pound. To slow capital flight, the government has raised interest rates. A phone company controlled by the Assad family sent out messages urging people to put money back into their accounts.

But a run on the banks cannot be ruled out. Over the past few years, about 60% of lending in Syria has been for people to buy their own cars. Many can no longer keep up with payments. A leading financier says, "If one of the smaller banks defaults, we all go down." Some branches are even displaying millions of dollars-in bundles of notes piled head high-to reassure worried customers. Some keep enough cash in the vaults to repay almost half their depositors on the spot.

"We are heading for a brick wall," says a man responsible for several percentage points of GDP. With the regime bust, the elite is likely to be asked to bail it out. Rami Makhlouf, Syria's richest man and the president's cousin, said as much during a recent press conference. Having pledged to give up part of his wealth, he added: "I call upon Syrian business leaders to follow this example because our nation is in need of support. The time has come for giving rather than taking."

But Syria's captains of industry are asking whether they must "go down with the ship", as one puts it. Some are taking their children out of private schools in Damascus to send them abroad. One prominent businessman who long flaunted his closeness to the president has given a Western ambassador a list of his supposed disagreements with the regime. "For my file," he says. Another has been donating blood to support the protesters. In Homs, the country's third city, businesses have started paying protesters' expenses.



The central compact of the Assad regime is breaking down. The president's family is from a minority Muslim sect, the Alawites, who are rank outsiders in Syria, accounting for around 10% of the population. His father seized power in 1970 and struck a bargain with the richest merchants, who are mostly from the Sunni majority, who make up 75%. In return for political support, the regime pledged to protect their wealth. The merchants got rich but few warmed to the Assads or their Alawite cronies, who have behaved like mafiosi, demanding a slice of every pie. Now a growing number of merchants believes the regime has become bad for business. They think that rather than ensuring stability, it is the main cause of instability, deliberately stoking sectarian tensions to scare people off the street.

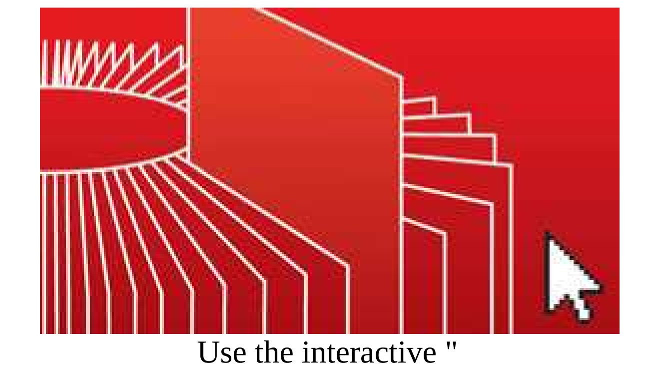
Other parts of the Assad coalition are wobbling, too. Christians, numbering around 10%, have long backed the regime, calculating that they are better off with the Alawites than they would be under majority Sunni rule. But that too may be changing. Christian leaders who were fervently backing the regime a month ago are now more cautious. They still fear being targeted if civil strife erupted. But it is no longer clear the Alawites would protect them. Some Christians have joined protests.

Syria's sizeable Kurdish minority (about 10% of the population) is also trying to work out who would best serve their interests. The regime has offered to return the citizenship which it took away from some of them in 1963. Iraqi Kurdish leaders, including President Jalal Talabani, whose people across the border have won autonomy, have been giving advice. Some Syrian Kurds are demonstrating against the regime-though they (and the protest leaders) are wary of making the opposition seem like an ethnic uprising.

Even the Assads' own Alawite minority is not guaranteed to support the regime. If there were a civil war they would no doubt stick together. But Alawite families provide some of the most prominent dissidents, including a poet called Adonis, Aref Dalila, an economist, and Louay Hussein, a writer and activist. Although the Assads have looked after their own relatives, most Alawites remain desperately poor. Some villages in their home region near the Turkish border do not have running water. Their leaders are said to have quietly contacted Sunni imams to seek security guarantees in return for abandoning the Assads.

Reform, repression or regional war?

Indeed, the only people the regime can really count on seem to be the security forces. The top brass-mostly staffed by Alawite loyalists-has given no hint of switching sides. And now that they have spilled so much blood, their options are limited. Even so, months of cracking down are taking a toll. In some hotspots troops are short of rations and depend on local people for food. Expanding operations further will be difficult. A number of units are being kept out of the fight because they are not trusted, especially ones filled with Sunnis. Manaf Tlass, a senior commander in the elite Republican Guard and son of a former defence minister, is staying home for unknown reasons.


Use the interactive "

According to some analysts, only a quarter of the total armed forces of roughly 400,000 is well equipped and ready to fight-and of these, only half, or 50,000 men, is really reliable. Twice that number is demonstrating each week. So far, the regime has been lucky in that the uprisings have been sequential, moving from one place to the next. If the protesters rose up at once, the regime could lose control. That is beginning to happen.

So what next? One possibility is that the regime might change course and try to reform. It has made a number of promises to protesters, such as new laws on political parties, elections in August and a reduction of the privileged status of the ruling Baath party. It has called a "national dialogue summit" for mid-July to talk about these. But such promises sound insincere. It is not clear who might attend the summit (the opposition says the crackdown must stop first). The president has been talking about political reform for a decade. Given the bloodshed, his promises would almost certainly be too little, too late-even if they were fulfilled, which they may not be. The regime seems incapable of opening up. Amnesties are followed by waves of arrests. The president's cult of personality has grown since the protests started. Reform would anger the security services, his only loyal allies. "They are playing for time and trying to take the wind out of the demonstrations," says one observer in Damascus. But "the system cannot be reformed," says a former top official, bluntly.

So might the regime go the other way, attempting harsher crackdowns and targeting churches and mosques-perhaps through proxies-to divide and rule the sects? A growing number of citizens are arming themselves. Future tussles with the security forces are likely to result in many more deaths. But a violent meltdown is not inevitable. The Alawites seem unlikely to start a civil war. They are a small minority and would probably withdraw to their mountain redoubt if under existential threat. They might seek to provoke communal or religious clashes. But Syria has seen no big communal clash since 1862, when Muslims burned down Christian houses in Damascus. You might think that Syria could see an Islamist takeover. But, when the Muslim Brotherhood was a legitimate political party in the 1950s, it got only 3-6% of parliamentary seats. Even government insiders-with an interest in playing up the threat-estimate that the brothers would get at most 15% today.

Perhaps the regime could try to start a regional war to distract from problems at home? It could attack Israel directly or via its ally Hizbullah in Lebanon. It could ask for more Iranian support than it already gets, even at the risk of drawing in Saudi Arabia on the side of the opposition. The region's main faultlines would then be starkly exposed: Arabs v Persians, Jews against the rest. But the Middle East is always full of such talk. It rarely amounts to much (though when it does the consequences are terrible). Iran, Israel, Hizbullah and Saudi Arabia all stand to lose a great deal from an all-out conflict in Syria. The Assad regime has long seen its backing for the Palestinian cause as a source of prestige at home and in the region. But among other Arabs (including many Palestinians), the Syrian regime is coming to be seen as toxic, not just for its brutality but for what many think has been its cynical manipulation of the Palestinian issue.



Patience, weapon as well as virtue

Lastly, might the Syrian regime split or change from within? Sunni officers staged three coups in quick succession after independence in 1946. The chances of that happening again are small. Among the Assads, Bashar's is the most acceptable public face. There seems little mileage in ditching him. The Assads have been anticipating coups for 40 years and have cleverly compartmentalised the security forces.

So perhaps the best outcome would be some form of negotiated transition under international auspices. Turkey, a one-time ally of the Assads, is working on a deal that would save the family face and give the Sunnis more power. Ahmet Davutoglu, its foreign minister, is due to visit Syria soon. Russia, which has a naval base near Tartus, is also taking a keen interest. A bargain could be struck if (when?) the regime loses control over parts of the country. Protesters might take over one or more cities like Hama. Some villages and valleys are already barricading themselves in.

A Syrian denouement may not yet be imminent but the regime is tottering. The extraordinary endurance of demonstrators week after week is paying off. Patience has been the key to many challenges to the ancient thrones of Damascus. On a visit 150 years ago Mark Twain wrote wryly of the three-millennia-old city: "She has looked upon the dry bones of a thousand empires, and will see the tombs of a thousand more before she dies."

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Republican candidates

Michele in the heartland

The latest Republican contender displays her conservative credentials



"ARE you a flake?" a news anchor asked Michele Bachmann the day before she formally launched her campaign for the presidency, summing up the pundits' slightly dismissive view of her chances. She replied, in a suitably dignified, presidential manner, that she deserved to be taken seriously. The best evidence of that had come the day before, when a poll of likely caucus-goers in Iowa put her neck-and-neck with Mitt Romney, the front-runner for the Republican nomination, with 22% to his 23%. Nationally her support is much lower, but since Iowa will be the first state to pass judgment on the Republican field next year, a win there would instantly confirm her as a genuine contender.

And Mrs Bachmann certainly knows how to play Iowa. She says she cried, as a girl of 12, when she learned that her family was moving out of the state where she was born. Although she now represents a prosperous exurban district in Minnesota, on June 27th she returned to Iowa, to the manufacturing town of Waterloo in the north-east, to reclaim her roots as well as launch her campaign. "Everything I need to know I learned in Iowa," she told the crowd, picturesquely gathered on the sun-drenched lawn of a 19th-century house. America's government, she declared predictably, had strayed too far from the values of small, hard-working places like Waterloo.

The evening before, at a less formal reception in a dance hall on the grounds of the National Cattle Congress, Mrs Bachmann had hammered home her local credentials. As a cheerful throng feasted on pulled-pork sandwiches and baked beans, she wistfully recalled the names of all the local schools and churches she had attended. Any suspicion of a shallow or incidental connection to the state was vanquished by the claim that her forebears "came here in the 1850s and were literally part of the pioneers who felled the trees and created the greatness that is Iowa". Her parents, she added, had danced across the very floor on which she stood.

But Mrs Bachmann's appeal is more than parochial. She is a gifted public speaker, with a knack for rousing a crowd. She was thought by most to have won the most recent debate among Republican presidential candidates. She is also a strong fund-raiser. At the last election she raised $13.6m, more than any other candidate for the House of Representatives.

Moreover, unlike Mr Romney and several other prominent candidates, Mrs Bachmann has been a consistent and ardent advocate of causes dear to the most fiscally and socially conservative Republicans. "As a constitutional conservative," she declared in her Waterloo announcement, "I believe in the Founding Fathers' vision of a limited government that trusts in and perceives the unlimited potential of you, the American people." She would like to reduce the corporate tax rate to 9%, to make it the lowest among rich countries, and do away with capital-gains and inheritance taxes altogether. She has mused about replacing income tax with a national sales tax. She voted not only for the fearsome spending cuts put forward by the Republican leadership in the House of Representatives, but also for the even more ruthless ones proposed by the Republican Study Committee. She voted against all the bills that have become red rags to the right, including TARP, the stimulus, cap-and-trade and health-care reform. She has been quick to embrace tea-party activists' complaints about overweening government, and even formed a "Tea Party Caucus" in Congress.

Mrs Bachmann, who attended a Christian law school, often talks about her faith. She professes to pray for guidance on even relatively mundane matters, such as hiring campaign staff. She also makes frequent reference to her five children and to the 23 foster children she helped bring up. She was an anti-abortion activist before entering politics. During the six years she spent in the Minnesota Senate before her elevation to Congress in 2006, Mrs Bachmann led a campaign to amend the state constitution to ban gay marriage, even though it was already illegal under state law.

But critics maintain that even though Mrs Bachmann has rock-solid conservative credentials, she has not got much done during her brief political career. She has never before run for statewide, let alone national office. She does not chair a committee or subcommittee. No bills or resolutions she has sponsored have become law, and only two have won approval in the House: one designating September as "National Hydrocephalus Awareness Month" and one honouring the 150th anniversary of Minnesotan statehood.

Moreover, many of the issues Mrs Bachmann has chosen to harp on about seem quixotic, to say the least. She denounced last year's census as unwarranted government intrusion, and said she would refuse to provide any information beyond the number of people in her household. She is sponsoring a bill to roll back energy-efficiency standards for light bulbs, arguing that they restrict commercial and personal freedom. She once introduced a resolution to prohibit the Treasury from scrapping the dollar and adopting a foreign currency in its stead-not a risk that seems imminent.

Mrs Bachmann is also prone to blunders. She recently relocated the first battles of America's struggle for independence from Massachusetts to New Hampshire. She says the Founding Fathers fought tirelessly against slavery, when many were in fact slave-owners. This week she declared, wrongly, that Waterloo was the hometown of John Wayne (it was home for a spell to John Wayne Gacy, a serial killer). PolitiFact, an outfit that assesses the accuracy of controversial statements made by politicians, has awarded Mrs Bachmann 11 "false" ratings and seven "pants on fire" to just one "true".

Voters who admire Mrs Bachmann's fierce conservatism will doubtless look past these slips and foibles. Her current rivals for the support of the party's more religious and tea-steeped voters are less charismatic, in the case of Tim Pawlenty, a former governor of Minnesota; less rounded, in the case of Herman Cain, a pizza mogul and talk-show host; or both, in the case of Rick Santorum, a former senator. But that could change if other populist firebrands, such as Rick Perry, the governor of Texas (who also has it in for energy-efficient light bulbs), or Sarah Palin, the former governor of Alaska and a tea-party favourite, enter the race. Mrs Palin was also in Iowa this week, attending the opening of a flattering film about herself, and stoking speculation, as usual, about her presidential ambitions.

Even if Mrs Bachmann has the party's right wing to herself, she may still struggle to win the nomination. Republicans tend to plump for electable candidates over ideologically pure ones, and seasoned politicians over relative neophytes. Most polls show Mr Romney, for one, putting in a better showing against Barack Obama than Mrs Bachmann. Even in the party's most conservative redoubts, after all, the ability to beat Mr Obama is the most cherished qualification of all.

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Gay marriage

Cuomo's pride

The Empire State lets them say: "I do"



THE Stonewall Inn, in New York's West Village, is famous in gay history as the scene of riots against the police in 1969. On June 26th Roy O'Neill and Michael Gigl stood just across the street from it to watch the city's Pride march. The couple's daughter Kiera sat on Mr Gigl's shoulders for a better view. This year's march was even more joyous than usual. Some 36 hours earlier, New York had become the sixth and most-populous state to legalise same-sex marriage when the governor, Andrew Cuomo, signed the bill into law. It will go into effect on July 24th. After watching the vote on their sofa, Mr O'Neill and Mr Gigl proposed to each other.

Mr Cuomo cajoled, pressured and tirelessly negotiated to drive the bill through the state Senate, which is controlled by Republicans. In 2009, the last time the issue went to Albany, it was rejected soundly. Not a single Republican supported it and eight Democrats voted no. This time four Republicans joined 29 Democrats to push it through. One, Mark Grisanti of Buffalo, opposed gay marriage for religious reasons, but could not justify denying to gay couples the 1,324 rights and legal protections the state offers married couples. "Who am I", he asked, "to say that someone does not have the same rights that I have with my wife?"

Mr Cuomo worked closely with gay-rights groups, consolidated this time under the banner "New Yorkers United for Marriage". Crucially, Republican consultants advised on strategy and slogans. Republicans also donated to the cause. A group of business leaders, including the heads of Goldman Sachs and Thomson Reuters, advised lawmakers that passage was needed for the state "to remain competitive". Commercials starring celebrities, athletes, politicians, even Barbara Bush, daughter of George W., pushed for passage of the bill. Most effective were those starring ordinary New Yorkers who had gay family members: parents who wanted to see their son marry his longtime partner, a war veteran who hoped to see his grandson marry as he chose.

The 2m onlookers at the Pride march hugged, hollered and danced. The loudest cheers were reserved for Mr Cuomo. Hundreds of marchers carried signs that read "Promise Kept" on one side and "Thank you Governor Cuomo" on the other. The noise went up several decibels when the police department's marching band played "Here Comes the Bride". Gary Payne and Dick Dehn, 54 years together, also earned loud applause as they rode by in a rickshaw. Michael Adams of SAGE, an advocacy group for older gays, says the passage of the law is especially poignant for them. They will now have hospital visitation rights, access to health insurance, tax deductions and relief from estate taxes.

Unfortunately, state law does not trump federal law. Gay married couples are still not eligible for federal benefits. Although Oregon, Maine, Washington and Maryland are considering similar measures, the Defence of Marriage Act

forbids federal recognition of same-sex marriage. Even so, Mr Cuomo sees New York as a beacon of social justice and is hopeful that its example will spread. Polls show that a majority of younger voters support marriage equality.

Exemptions were included in the bill for religious organisations, though this did not satisfy Catholic leaders. Brooklyn's bishop called on parishes to ban gay-marriage supporters from speaking at events. If some churches won't allow gay weddings, plenty of other places are impatient to get started. A pop-up chapel will be erected in Central Park on July 30th, providing an officiating person and cupcakes. Michael Bloomberg, New York's mayor, is encouraging people to come to New York City to get married. His tourism office has set up an "NYC-I Do" website. Weddings mean money for the coffers of both city and state. In May some Democratic legislators estimated that wedding goods and services for gay couples would generate $284m over three years for New York. Mr O'Neill and Mr Gigl, together 17 years, plan to get married later this summer. "We're going to have a small wedding," says Mr O'Neill, "but a big reception."

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After the space shuttle

Mission uncertain

The end of the programme will reverberate in Texas and beyond



Those were the days

FOR nearly 50 years the Johnson Space Centre in Houston has dominated the city's cultural and economic life. Francie Newsom, a teacher at the centre's museum, reckons that astronauts in Houston are like movie stars in Los Angeles: a normal part of the landscape. They shop for groceries and take their children to baseball practice. In her previous career, as a horse trainer, she gave some of them riding lessons. But the Space Centre is also an economic anchor for the region. It employs more than 18,000 people, and the statewide economic impact of NASA spending in 2009 was nearly $3 billion. It has helped draw about 50 aerospace contractors to the region, lured by several billion dollars'-worth of government contracts.

America's last space-shuttle launch is scheduled for July 8th. With the end of the programme, NASA estimates that several thousand jobs will be lost around the country between agency employees and contractors. But the actual figure

could be much higher, depending on spillover effects and the response from the private sector. Earlier this month, for example, Boeing announced that it would lay off more than 500 people working in its space-exploration division.

The job losses will be most extensive in Texas and in Florida, home of the Kennedy Space Centre and Cape Canaveral. They will be especially painful for Florida, which had a 10.6% unemployment rate last month-a grim figure that nevertheless marks a two-year low. Houston has a more resilient economy, but it worries about a brain drain. Bob Mitchell, the president of the Bay Area Houston Economic Partnership, reckons that up to 4,000 people will lose their jobs with the end of the programme. He worries that if they move away, their expertise will be lost for ever. His group is trying to help them find new work in the region. If Houston can keep its aerospace engineers for a few years, he hopes, America may meanwhile get a new president who is more interested in space.

That would probably require Americans themselves to show more interest. Enthusiasm for the programme is not what it was, even in the cities that were once overrun with astronauts. In April, for example, NASA announced that the *Enterprise*, *Atlantis* and *Discovery* shuttles will retire to New York, Florida and Virginia. Some people in Houston suspected favouritism. Wayne Hale, formerly the space-shuttle programme manager at NASA, took a blunter view on his blog: "Houston didn't get an orbiter because Houston didn't deserve it," he wrote, explaining that people had become too complacent.

George Abbey, a former director of the Johnson Space Centre and now a space-policy expert at Houston's Rice University, has similar worries. In a paper written in 2009 he and Neal Lane, a colleague at Rice, argued that America's space programme has suffered from policies with much broader economic consequences, such as export controls on aerospace technology and restrictions on visas for highly skilled scientists and engineers. These are short-sighted policies in an increasingly competitive world. "We don't make a lot of products in this country any more," he warns. "The only area where we've been able to maintain a leadership role is in technology." NASA says that the shuttles will be succeeded by new leaps forward. If those fail to materialise, it is not just Florida and Texas that will lose out.

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Trade pacts

Progress, of a sort

Coupling trade with worker aid

BARACK OBAMA is a late and reluctant convert to free trade. As a senator he opposed many trade agreements negotiated by George Bush-among them deals with Korea, Colombia and, for a time, Panama. As president he has given his backing to those deals, provided Korea did more to admit American cars, Colombia made greater efforts to prevent the murder of union activists, and Panama tried harder to crack down on tax cheats. Satisfied on those fronts, he then insisted that Congress should also reauthorise Trade Adjustment Assistance, or TAA, which provides American workers who lose their jobs to foreign competition with training, income support and subsidised health insurance.

He appears to have won that as well. On June 28th the White House said it had a deal with Max Baucus and Dave Camp, the Democratic and Republican chairmen of the trade committees in the Senate and House respectively, to bundle reauthorisation of TAA in with the Korean deal. Mr Obama would then submit all three pacts to Congress for ratification, along with renewal of preferential tariffs for poor countries.

The deal is a fragile one. Republicans have been clamouring to ratify the trade pacts, but not necessarily with TAA attached. Serious fraying has occurred of the consensus that trade liberalisation's benefits for the many should be coupled with aid for the few. John Kennedy signed TAA into law in 1962 as part of the inauguration of global trade negotiations so that "those injured by that competition should not be required to bear the full brunt of the impact."

Eligibility for TAA has been expanded several times; by 2010 it went to 234,949 people. Howard Rosen, a proponent of TAA and a scholar at the Peterson Institute, notes that key Republicans, including Mr Camp, supported its last expansion in 2009. (That expansion has expired, and the latest deal would restore it.) Mr Camp still supports TAA, but many of his fellow Republicans consider it just a waste of money.

If Republicans strip TAA from the deal, Mr Obama may abandon the trade deals altogether. That might destroy the prospect of any trade liberalisation during his presidency. But many Americans won't care. Pew, a pollster, finds that 44% of them, a plurality, think trade agreements are bad for America, the highest percentage in 13 years.

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Health and longevity

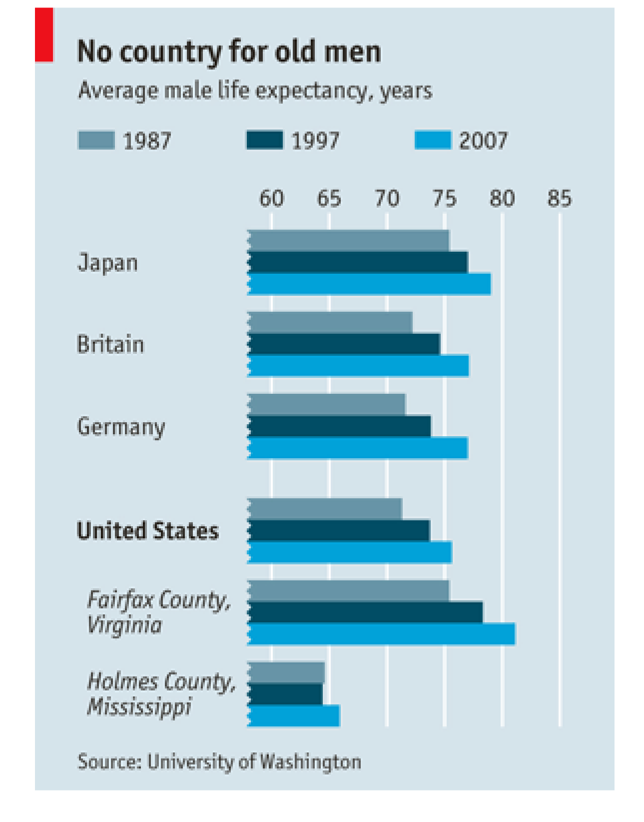
Long live the fat American

Obesity may threaten life expectancy. Or maybe not



AMERICA'S obesity epidemic is so called for a reason. Roughly one in three adults is obese. In 2008 close to 25m Americans were diabetic, according to a study published on June 25th. Nevertheless, Americans are living longer than ever. In 2007 the average life expectancy at birth was 78 years. This follows decades of progress. The question is whether obesity might change that.

National progress in life expectancy masks wide local disparities, according to a study published on June 15th and written by researchers at the University of Washington and Imperial College London. Men in Holmes County, Mississippi, for example, have a life expectancy of 65.9 years, the same as men in Pakistan and 15.2 years behind men in Fairfax, Virginia. Gaps between America's counties have widened since the early 1980s. Most alarming, 702 counties, or 30% of those studied, saw a statistically significant decline in life expectancy for women from 2000 to 2007; 251 counties saw a statistically significant decline for men.



America's advances on the national level, meanwhile, have lagged behind those of other developed countries. A panel at the National Research Council recently took on the task of studying longevity. For American women, a rise in life expectancy of 3.3 years from 1980 to 2007 amounted to just 60% of the gains in other rich countries.

Much can be blamed on mid-century smoking habits. Obesity's effect, however, is debated. While both Americans and Australians have ballooning bellies, Australia's life expectancy has continued to move up nicely. Researchers at the National Research Council estimated that America's high rates of obesity accounted for between one-fifth and one-third of its lagging life expectancy relative to other rich countries.

It is unclear whether obesity might have a greater impact in future. As medicine continues to advance, the paunchy may lead longer lives. Already, America's most rotund citizens benefit from bypass surgery and cholesterol-lowering statins. The prevalence of high cholesterol and blood pressure among the obese in 1999-2000 was about half what it was in the early 1960s.

But medical progress may do only so much. "Obesity is being acquired at such young ages that you wonder what the limits of these technologies will be," argues Eric Reither of Utah State University. In a paper to be published in the August issue of *Health Affairs*, Mr Reither, Jay Olshansky of the University of Illinois at Chicago and Yang Yang of the University of North Carolina contend that obesity threatens progress in life expectancy. Predictions based on past patterns of mortality, they say, fail to take account of trends among the young. The early onset of obesity may bring severe health problems, such as kidney failure, by the time today's children reach adulthood.

James Vaupel, director of Duke University's Population Research Institute, is sceptical of the argument that obesity may reverse future progress in life expectancy. More worrying, he says, is that rising obesity will lead to higher levels of disability. Mr Olshansky remains wary. "We have this hurricane that's about to sweep across the country," he insists, "and we can't see it yet."

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Illinois politics

The Rod unspared

Corruption charges fell yet another Illinois politician



HAD HE been slightly more shameless, Rod Blagojevich might have held a press conference on the afternoon of June 27th to announce that he had been found not guilty of soliciting bribes from a road-building executive. He might also have celebrated the jury deadlocking on two charges of attempted extortion. But even Mr Blagojevich, flamboyant and loquacious as he is, could not quite manage that. Those were merely three of 20 corruption charges filed against him, and on the other 17 he was found guilty. This was a far cry from his trial last year on similar charges, which resulted in a single conviction (lying to the FBI) and a hung jury on 23 other counts. Mr Blagojevich pronounced himself "stunned" and " very disappointed" by the latest verdict, but said little else, noting that "among the many lessons I've learned from this whole experience is to talk a little bit less."

He may well wish he had learned that lesson four years ago. True, a duller ex-governor of a Midwestern state would not have had a musical written about him, or appeared in Donald Trump's reality show. But then federal prosecutors might not have caught him on tape boasting that "I've got this thing [referring to the Senate seat left open when Barack Obama became president, to which Mr Blagojevich, as governor, was to appoint a successor], and it's fucking golden, and...I'm just not giving it up for fuckin' nothing." They might not have caught him offering to appoint Mr Obama's candidate of choice to the seat in exchange for his own appointment as secretary of health and human services. And they might not have caught him conspiring to sell the seat in exchange for millions of dollars, for his wife's appointment to corporate boards or for being given a job "at a private foundation in a significant position with a substantial salary."

Mr Blagojevich said that those propositions were nothing more than "manic brainstorming". His defence team tried to argue that his fault was naive garrulousness rather than venality. "He talked and he talked and that is all he did," said Aaron Goldstein, one of Mr Blagojevich's lawyers. "They want you to believe that his talk is a crime. It's not." Mr Goldstein argued that Mr Blagojevich received no money, shook nobody down and was guilty of nothing more than bluster and political gamesmanship.

But Carrie Hamilton, the prosecutor who made the closing argument, contended that Mr Blagojevich's schemes went beyond routine politics into criminal conduct. Even if he received no money, she argued, "the harm is done when the ask is made because that's the violation of the people's trust...the law focuses on the ask, not whether there was a receipt."

In the end Ms Hamilton's argument won. The crimes for which Mr Blagojevich was convicted carry a maximum combined prison time of around 300 years. He will probably do a small fraction of that time-perhaps a decade-though a sentencing date has not yet been set.

He is the second consecutive governor of Illinois to be convicted on federal corruption charges: his predecessor, George Ryan, is serving time for fraud and racketeering. And before Mr Blagojevich became governor he represented Chicago's North Side in Congress-a seat previously held by Dan Rostenkowski, who, like him, was convicted of wire fraud.

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Christian festivals

A broader church

Fun in the woods with gay, tattooed and generally liberal folk



Not Woodstock, yet

AT LEAST 25 Christian music festivals are held each summer in America, but they have never catered for theological liberals. Until this year, that is, when the Wild Goose Festival-named after a Celtic symbol for the Holy Spirit-kicked off on June 23rd on 72 wooded acres in eastern North Carolina, not so far from the intellectual hub of Raleigh-Durham.

The idea, seven years in the making, was based on Britain's Greenbelt Festival in Cheltenham, which draws 20,000 people a year. About 1,500 people came to the American version, which explicitly pitched its appeal to artists and musicians, nonconformists, post-Christians, non-Christians, disaffected evangelicals and a liberal evangelical subset known as the "emergent" church.

Instead of Bible studies, there were labyrinth walks. Instead of praise-and-worship music, there was hymn-singing in a beer garden and a bluegrass liturgy presided over by a tattooed female Lutheran minister. Visitors were greeted with buckets of water in which to baptise themselves, and tubs of mud to remind them that "dust thou art". (In Britain, the mud is usually underfoot.) Lecture topics ranged from sex trafficking and social justice to authority in the church and interfaith relations. Visitors could learn from Tom Prasada-Rao, a singer, how to chant "Om" and "Hallelujah Hare Krishna", or

hear Paul Fromberg, a pastor from San Francisco, talking about his 2005 wedding to another man. "God is changing the church through the bodies of gay men," Mr Fromberg told a packed session on human sexuality. Also under discussion was "religious multiple belonging"-in other words, belonging to a clutch of different faiths at once.

Several disillusioned evangelical leaders attended. One was Jay Bakker, son of Jim and Tammy Bakker of the defunct-Praise-the-Lord-TV-network fame, who gave meandering talks on growing up fundamentalist. Frank Schaeffer, who has made a career out of criticising his evangelical parents Francis and Edith Schaeffer, called the Bible "Bronze-Age mythology" and confessed he had a "conflicted ambivalence" about abortion.

"We're a laboratory for justice, spirituality and art in the way of Jesus," explained Gareth Higgins, the festival director and a peace activist from Belfast who has worked with Greenbelt and now lives in North Carolina. He and other organisers managed, miraculously, to recruit 150 musicians and speakers, none of whom charged for their services. They hope that the emergent cohort will rise from the ashes of an evangelicalism ruined by right-wing politics. As 78-year-old Phyllis Tickle, author of several books on emergent Christianity, put it, "We're at the start of a 500-year upheaval in culture and the church."

Most evangelicals do not view the emergents so kindly. The few conservatives at the festival privately complained that the panels were stacked with liberals and that issues dear to them, such as abortion, were neglected. Greenbelt has often met similar criticism in recent years.

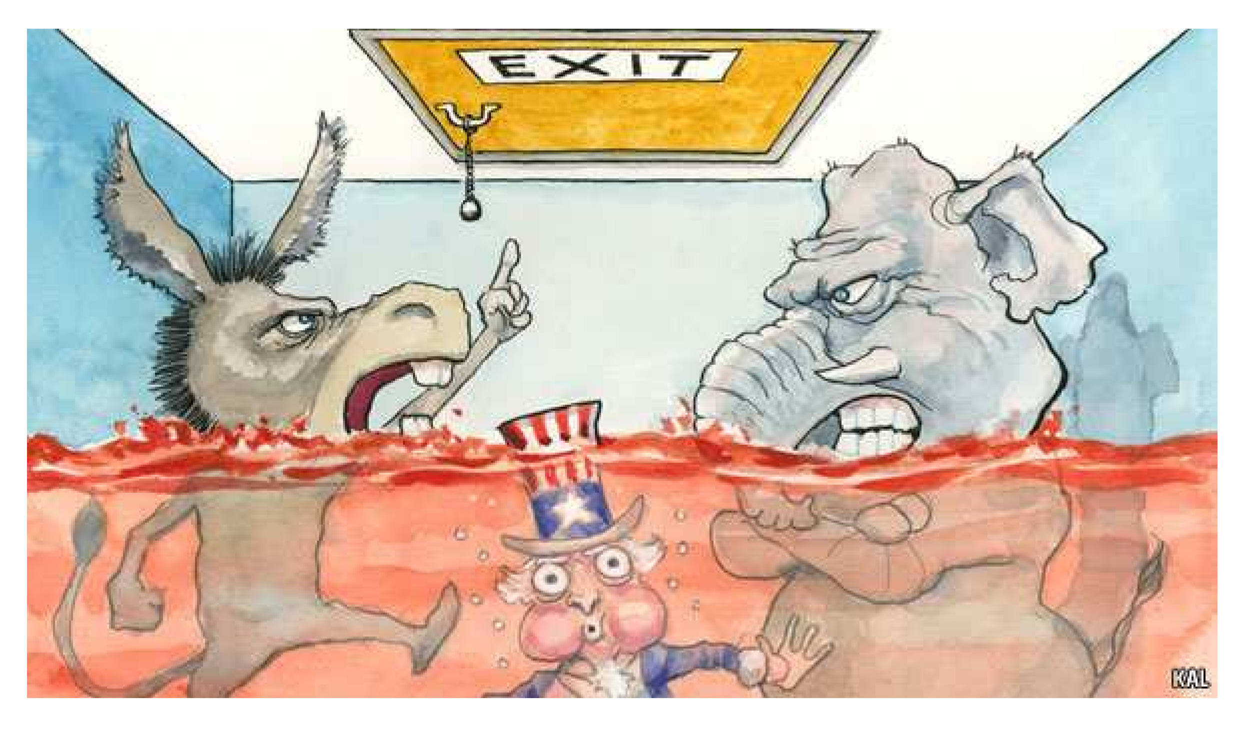
Mainline Protestants, however, seemed delighted by the festival, and may well latch on to the emergents to shore up their shrinking numbers. Buoyed by their success, Wild Goose's organisers are planning to repeat the festival next year in the same bucolic place.

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Lexington

Bargaining and blackmail

How the Republicans' intransigence on tax increases might rebound against them



IT IS tempting to resort to cliche: a Martian parachuted into Washington, DC, this summer would be utterly bemused by the antics of its political class. But you do not need to be an alien. Even veteran observers of the nation's capital are scratching their heads. On the face of it, the most powerful country on the planet, having only just recovered from a self-inflicted financial calamity of epic proportions, is marching towards another self-inflicted financial calamity of epic proportions. Unless Democrats and Republicans close their differences on taxes and spending, and Congress votes to increase the federal debt ceiling, the United States may default on its debt, an eventuality with incalculable consequences for the world economy as well as America's.

The very direness of this possibility has produced a certain insouciance. The smart money bets that it will not happen. Investors are still buying America's debt, no doubt because they assume that, for all the theatre, its politicians are not mad enough to jeopardise the full faith and credit of the United States. When last week the debt negotiations between the Republicans and Joe Biden, the vice-president, collapsed, the market took even that in its stride. Now that Barack Obama has taken charge, it is surely only a matter of time-the Treasury's deadline for averting a default is August 2nd-until the inevitable compromise emerges.

That guess is probably correct. If Washington is not good at cutting deals, what is it good for? Why, Mr Obama and John Boehner, the speaker of the House of Representatives, have at last even played golf together. And Mr Boehner, a dealmaker *par excellence*, has said repeatedly that, yes, the debt ceiling must be raised, albeit on Republican terms. Nonetheless, it would be wrong to dismiss the fight over how to do it as mere posturing. Many of the newer Republican members of the House are zealots sent there by the tea-party movement in November's mid-term elections. For them this is much bigger than politics as usual.

This group, remember, sees itself as a revolutionary vanguard. They have come to Washington to resume Ronald Reagan's mission of rolling back the state, the great cause which they believe to have been betrayed by the tax increases of the first President Bush and the big spending of the second. Now they are sworn to restore the true faith and its central creed: never raise taxes.

If the talks fail, it will be because this breed of Republicans has elevated a preference into a fetish. Even Reagan, a supply-sider persuaded by Arthur Laffer's pretty curves that his tax cuts would pay for themselves, raised taxes when they did not. Today's Republicans show no such flexibility. After the Democrats insisted in the Biden talks that a deal would have to include more tax revenue, $400 billion of it, and not just less spending, Eric Cantor, the House majority leader, stalked out. Read our lips, is the Republican mantra: no new taxes, period-perhaps not even just the removal of tax breaks (such as those for oil and gas firms) and exemptions on which the Democrats are now focusing.

To non-partisans, the idea of taming the deficit by spending cuts alone flies against both common sense and arithmetic. America's tax-take is not high either by international or its own historical standards. One commission after another has advocated mixing spending reductions and revenue increases. Without the latter, entitlement programmes will have to be eviscerated, even if, as now looks possible, the defence budget takes a share of the pain. But the Republicans will not budge from their dogma.

Where does this intransigence spring from? Part may be tactical. If a default is really possible, won't the man in the Oval Office have to blink first-and isn't it just irresistible to inflict this humiliation on him? Part is pandering: a Gallup poll in May found that 70% of Republican voters do not want Congress to raise the debt ceiling at all-and almost every Republican in Congress has signed the "pledge" of Grover Norquist's ferocious advocacy group, Americans for Tax Reform, to oppose all tax increases.

Starve that beast

But for a large contingent of Republicans on Capitol Hill the fact is that a blanket opposition to tax increases has become a matter of deep conviction. Since the election of Mr Obama, they believe not only that government has expanded beyond the consent of the governed but also that cutting taxes is the only reliable way to roll it back. If taxes are raised to reduce the deficit, won't they merely fuel more spending in the future? After their mid-term election victory, and the failure of Mr Obama's stimulus spending to deliver the expected returns, Republicans feel they are on a roll-and that the debt-ceiling deadline gives them just the lever they need to inaugurate an historic change of course.

Or so it seems. But they should take care. Imagine they got their way entirely, forcing Mr Obama and his party to accept deep cuts in spending without raising taxes at all. Voters like low taxes. But since they also like all the state help that high ones buy, they may not be quite as grateful as the Republicans expect. For example, the blue-collar whites who make up 40% of the electorate are fed up with Mr Obama, but also wary of sudden change and attached to entitlements such as Medicare and Social Security (pensions). As Henry Olsen of the American Enterprise Institute notes, this group has handed power to the Republicans before, only to defect when the party threatened the welfare state.

In politics, moreover, the "how" can matter. Remember the Republicans' rage when the Democrats, then in charge of both houses, used every last trick to "ram" the controversial Affordable Health Care Act through Congress? Now the Republicans are using the spectre of a debt default to impose their own radical vision of how to reform America, before having won control of the Senate, the White House or even, many will say, the argument. That strikes some Americans as nothing less than blackmail.

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Crime and politics in Mexico

A turning tide

With a year to go until the presidential election, voters are tiring of the drug war



FOR most of Felipe Calderon's four-and-a-half years as Mexico's president, voters have worried more about jobs than crime. Since 2001 average income growth per person has been below 1% a year, one of the lowest rates in the world. Whereas the drug war has raged mainly along the cocaine trail, with two-thirds of its estimated 40,000 killings occurring in just 3% of the country's municipalities, economic hardship has touched nearly everyone.

That is changing. For the first time under Mr Calderon, security is now a greater concern for Mexicans than the economy is. That is partly because GDP is growing again: last year it rose by 5.5%. But it is also because the violence caused by the crackdown on gangs continues to spread. Last year the government recorded more than five times as many mafia-linked murders as in 2007. A tally by *Reforma*, a newspaper, suggests that this year has been worse still. In March Mr Calderon's approval ratings dipped below 50% for the first time.

The restless mood of voters comes as Mexico begins its countdown to a presidential election next summer. The race will unofficially begin on July 3rd, when three states elect new governors. The Institutional Revolutionary Party (PRI), which ruled the country for 71 years until 2000, is expected to win all of them, boosting its hopes of retaking the presidency. A convincing victory in Mexico state, the country's most populous, would be particularly valuable to the PRI. The departing governor, Enrique PeÃ±a Nieto, is almost certain to be its presidential candidate, and he will need a clean handover on his home turf.

As Mr PeÃ±a gains momentum, the PRI's rivals are still struggling to launch their campaigns. Mr Calderon has unsubtly backed his finance minister, Ernesto Cordero, for the candidacy of his conservative National Action Party (PAN). But polls suggest that Mr Cordero is less popular than both Santiago Creel, who lost the 2005 PAN primary, and Josefina Vazquez Mota, a former education secretary. The leftist Party of the Democratic Revolution (PRD) is torn between Marcelo Ebrard, the moderate mayor of Mexico City, and Andres Manuel Lopez Obrador, a populist who lost to Mr Calderon in 2006 but still claims to be Mexico's "legitimate president". Since Mr Lopez Obrador says he will run for a smaller party if he loses the PRD nomination, the pragmatic Mr Ebrard may choose to wait for a clear run in 2018.

So far the opposition has been reluctant to set out its policies on crime. The PRD has avoided the topic, perhaps because prosecutors say some of its members in Michoacan state were involved with the mobs. The PRI has focused on the economy. Amid this "failure of the entire political class" to suggest alternatives, says Edgardo Buscaglia, a law professor at Mexico City's ITAM university, the public may consider radical measures like legalising drugs.



Explore our

Citizens' movements are stepping in. Until recently, Mexico's "indolent civil society...left everything to the government," says Alejandro Marti, a sports-goods businessman who has advocated judicial reform since the kidnap and murder of his 14-year-old son in 2008. Crime victims have now found a leader in Javier Sicilia (pictured), a writer whose 24-year-old son was killed in March by thugs linked to drug gangs. Mr Sicilia led a "peace caravan" of thousands to Mexico City and then to Ciudad Juarez, the country's most violent city. Another group has filled public fountains with blood-red dye. On June 23rd Mr Calderon held a televised meeting with Mr Sicilia and relatives of the dead or disappeared. "We must ask forgiveness for not protecting the life of the victims," he said, "but not for having acted against the criminals who are killing them."

Yet Mr Sicilia's supporters, a mixture of leftists, liberation theologists and ordinary victims who are "*hasta la madre*" (have "had it up to here"), are still squabbling over their demands, such as whether the army should get off the streets at once or withdraw gradually. One useful concession would be a truth commission to determine exactly how many lives the drug war has taken and how. (Many victims' families doubt the government's claim that most of the dead are criminals.)

The biggest obstacle to better security policies is corruption. Mr Buscaglia reckons that criminal gangs make political contributions in 60% of Mexican campaigns. Spending in the Mexico state governor's race is "clearly beyond what the law authorises," says Luis Rubio, the head of CIDAC, a think-tank. Yet precious few politicians have been hauled into court. "Until we start seeing indictments against all parties," says Mr Buscaglia, "the beginning of the end will still be far away."

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Canada's unions

Mail aggression

A strike gives both the government and opposition a chance to play politics

FEW people under 30 make much use of "snail mail" anymore. But Stephen Harper, Canada's Conservative prime minister, is 52, and judged that a labour dispute which had interrupted postal service for three weeks was causing enough damage that the government should pass a law on June 26th to order employees back to work. Although Canada faces far greater economic threats than a work stoppage in a shrinking industry, the postal strike offered Mr Harper an irresistible opportunity to pick a favourable political fight.

If sending a letter seems quaint today, the notion of a postal service profitable enough that its workers would risk a strike seems quainter still. But even though Canadians post fewer letters than they once did, state-owned Canada Post has deftly avoided obsolescence. The company has encouraged the growth of "direct" (junk) mail, which now accounts for almost a quarter of its revenues, and launched its own online bill-payment service. It was profitable for 15 straight years up to 2009, the latest year annual figures are available.

In February Canada Post announced it needed to offer lower pensions and wages to new hires, citing falling mail volumes and revenues. Complaining that the company remained in the black, its workers' union launched a series of rolling strikes on June 3rd to protest the cuts. The management was unfazed. On June 14th it responded by locking out 48,000 employees and cutting off postal services entirely.

The work stoppage was certainly inconvenient for many Canadians, and threatened Canada Post's future revenues by forcing customers to switch to online bill payment. But by the government's own calculation, it cost the country C$9m-31m ($9m-32m) a day-a pittance in a GDP of C$1.6 trillion. As the dispute began, the *National Post* newspaper ran the headline "Canada Post Strike: Will We Even Notice?"

The standoff's main significance was political. The Conservatives, who won a majority in May after five years of minority government, have long been hostile to unions. In contrast, the New Democrats (NDP), who came second in the vote, are a leftist party closely tied to labour. A showdown benefited both of them. It let the NDP show loyalty to its base and flex its muscles as the new official opposition, while allowing the Conservatives to land a blow on a favourite punching bag.

The resulting political theatre went according to script. On June 20th the government presented a bill in Parliament that would impose a wage settlement even harsher than Canada Post's original proposal. The NDP filibustered it for 58 hours, delaying the start of Parliament's summer recess. Conservative MPs said they had received supportive letters from angry constituents-presumably by e-mail. When the lawmakers could debate no more, the Conservatives passed the bill on June 26th.

Most of Canada Post's dejected employees have now returned to their jobs. However, their respite from the Conservatives' onslaught may prove brief. Mr Harper has vowed to close the budget deficit by 2015, and Canada Post might bring a windfall at auction. Selling it would also bolster Mr Harper's credentials on shrinking government. NDP MPs will need to start saving their breath if they hope to stave off privatisation with a filibuster.

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Telecoms in Belize

Back to the drawing board

The courts overturn a controversial nationalisation



Claudio Munoz

NESTOR VASQUEZ, Belize Telemedia's executive chairman since 2009, tried to run his country's dominant telecoms firm as usual on June 27th from its head office in Belize City. But one mile away Dean Boyce, also styling himself executive chairman, sat in a newly established rival office and told bemused employees to take no orders from Mr Vasquez or his team. One page on the firm's website listed Mr Boyce as chief; another named Mr Vasquez.

This chaotic episode began on June 24th, when Belize's Court of Appeal ruled that the 2009 nationalisation of Telemedia was unconstitutional. In 2008 Dean Barrow became prime minister. He soon revealed that the government of his predecessor, Said Musa, had signed secret "accommodation agreements" with Belize Telecommunications, which later became Telemedia. The deals limited competition and required the state to make up the company's shortfall if it failed to earn a 15% return on capital.

In 2000 holding companies controlled by Michael Ashcroft, a member of Britain's Conservative Party and a life peer who grew up in Belize, bought a controlling interest in Telemedia. Lord Ashcroft's many businesses in Belize-including BCB Holdings, the parent of Belize Bank, the country's largest-make him a giant figure in the former British colony, which has 350,000 people and a GDP of $1.35 billion.

Lord Ashcroft's spokesman has said he had divested himself of all "economic interest" in Telemedia by 2004, and that the firm's main beneficial owners were an employees' trust with no elected staff representation and the Hayward Charitable Belize Trust, a Turks and Caicos entity whose trustees are unknown. (Telemedia's records listed eight corporate parents, five of which shared an address.) But Mr Barrow believed that Lord Ashcroft-whom he called a "determined, ruthless, ambitious enemy"-still controlled Telemedia. Belize Bank had lent Telemedia $22m, while Telemedia owned bonds from BCB firms.

The prime minister first tried to renegotiate the tax clauses with Telemedia. When those talks failed, he got the courts to order the company to make tax payments. Telemedia took Belize to arbitration in London. But the government rejected that arbitrator's jurisdiction and did not appear, and has not paid the $41m default judgment granted to Telemedia. Parliament then nationalised the company in 2009.

Mr Boyce and BCB Holdings filed a successful appeal. The expropriation was overturned for being arbitrary, disproportionate and lacking proper compensation.

Now it is the turn of Mr Barrow, himself a lawyer, to defend the nationalisation. He argues that the ruling cannot be implemented without a separate enforcement order. He is appealing to the Trinidad-based Caribbean Court of Justice,

Belize's final appeal court. And he plans to get a new, constitution-friendly expropriation passed "in the shortest possible time"-possibly as early as next week.

Meanwhile, control of Telemedia remains up in the air. Within an hour of the ruling Mr Vasquez left the office, and Mr Boyce arrived and held a board meeting. Once it ended, however, Mr Boyce left and Mr Vasquez returned. When Mr Boyce went back to the building late that night, a police guard stopped him from entering.

With monthly bills coming due, even the banks are taking sides. Most will keep sending customers' payments to Mr Vasquez's state-run Telemedia office. But Lord Ashcroft's Belize Bank plans to put incoming payments on hold instead.

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Japan's prime minister

One step ahead of the executioner

The unfathomable Naoto Kan defies both friends and enemies



LIKE one of the irradiated dogs that have been left to fend for themselves in the shadow of the Fukushima Dai-ichi nuclear power plant, Naoto Kan, the Japanese prime minister, is giving the impression that he has gone feral. Why else but because of a blind craving for power would he defy even his friends within the government who are begging him to resign?

Given that politics has been in a state of paralysis since the earthquake, tsunami and nuclear accident on March 11th, it is a fair question. Both outside the ruling Democratic Party of Japan (DPJ) and within it, many politicians are so exasperated with Mr Kan's lack of leadership that they cannot see any hope of laws essential for recovery and reconstruction being passed until he steps down.

Yet, either through luck or cunning, Mr Kan has managed to keep one step ahead of those baying for his blood. He survived a no-confidence motion in parliament a month ago by promising to step down eventually. On June 27th Mr Kan at last set the conditions that he said would enable him to resign.

The conditions were the passage of three bills: a Â¥2 trillion ($25 billion) supplementary budget to cope with the disaster; the issuance of bonds to finance the 2011-12 budget deficit; and an electricity initiative to broaden the scope of feed-in tariffs to encourage more use of renewable energy in the national grid. All three have been held up by opposition from the Liberal Democratic Party (LDP), which pretty much ran Japan for 55 years until 2009 and is fixated with destroying Mr Kan. It has demanded that he quits before, not after, it approves any bills-though Mr Kan would not be the only one to doubt its sincerity.

Mr Kan's conditions put the ball back in the LDP's court, but not for long. Confusingly, on the same day that he set the conditions for his retirement, the prime minister reshuffled his cabinet. He appointed a renegade LDP politician, Kazuyuki Hamada, to handle internal affairs in parliament. With that move, Mr Kan managed to incense both the LDP and his own party.

Given such confusion, some observers do not discount the possibility that Mr Kan might make one final lunge for redemption. They say that later this summer he might dissolve parliament and call a snap election, aiming to campaign on a pledge to abandon nuclear power. He might even quit, it is whispered, on the anniversary of the bombing on Hiroshima on August 6th, when anti-nuclear feelings run high. On June 28th Mr Kan did nothing to dispel the rumours, telling DPJ politicians that energy policy was likely to be the most important issue in the next election.

There would be political resonances to such a gamble. In early August 2005 the then-prime minister, Junichiro Koizumi, called a snap election to push through postal privatisation. It was a move that nearly split the ruling LDP but also gave Mr Koizumi a landslide victory. In post-Fukushima Japan, nuclear power would be a much more emotive issue. "It could be a bomb to destroy both the DPJ and the LDP," says Takeshi Sasaki of Gakushuin University in Tokyo. He speculates that, like Mr Koizumi, Mr Kan might attempt to surround himself with charismatic young politicians to be the face of the next government. Such people might include Goshi Hosono, Mr Kan's 39-year-old Mr Fix-it who this week was appointed minister in charge of the nuclear mess.

There are just as many reasons to doubt that such an election would be feasible, however. The high command of Mr Kan's party would be staunchly opposed, fearing the DPJ would lose. Nor is it yet clear how firmly the public has swung against nuclear power since March 11th. After all, years of power shortages loom. What is more, no one in the disaster areas is in any mood for a national election. All they ask is for parliament to provide funds and lead the reconstruction.

Mr Kan's biggest drawback is that, unlike Mr Koizumi at the time, he is not popular. However much the public dislikes the mainstream parties, they do not like him either. A poll published on June 29th by Kyodo, a news wire, showed over two-thirds of those surveyed wanted him to step down immediately or by the end of August. The election scenario "won't happen. It would be a suicide mission. He's no Koizumi," says Gerald Curtis of Columbia University. He certainly isn't. But regardless of whether Mr Kan calls an election or not, if the main parties cannot find common ground for dealing with the disaster, they still need a bomb put under them.

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High-speed rail in China

Tracking slower

A showcase line, but throttling back

THE heart of China's national railway policy has been the pursuit of speed. And having built the world's longest high-speed network from scratch, this week the country proudly launched its showcase project, the 1,318km (820-mile) Beijing-Shanghai line. Running at speeds of over 300km an hour, the sleek electric train cuts the travel time between China's two most important cities by nearly half, to four hours and 48 minutes.

The service is designed as a rival to air travel. Indeed, at Beijing South station, the ultra-modern facility resembles an airport. The other terminus, meanwhile, actually is at Shanghai's domestic airport. But that means travellers lose the benefit of a downtown arrival, often touted as an advantage of trains. Even on intermediate stops, stations are far from urban centres.

Travel time might have been shorter still, but for controversy over the train's speed. Journeys of 350km an hour had been promised. Then a system-wide slowdown to around 300km an hour was announced. At the time, the government insisted this was to save energy. It strenuously denied that safety was a factor, despite concerns from Chinese and foreign engineers. But now an official at China's Railway Electrification Bureau admits the slowdown was based on concerns over safety after all.

The Beijing-Shanghai line took only three years to build. With a price tag of $34 billion, it may never recoup its costs. Still, better connections could bring more productivity gains to China than in more developed countries. Ying Jin at Cambridge University says high-speed rail could foster development away from China's megacities.

Meanwhile, for those who find the line's suburban stations inconvenient, Mr Ying says, people need only be patient. With urbanisation in China roaring ahead, it is only a matter of time before the cities pull up at the stations, rather than the other way around.

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Australia's prime minister

One year on

With little more to lose, Julia Gillard battles on



You should have locked the window

WHEN she defenestrated Kevin Rudd to become Australia's first woman prime minister, Julia Gillard claimed that "a good government was losing its way". On the first anniversary of Ms Gillard's coup in late June, the words came back to haunt her. She is struggling to convince Australians that she has what it takes to rediscover any sense of direction.

An opinion poll on June 24th gave the government just 30% of first preference votes, a worse score than Mr Rudd's when Ms Gillard toppled him before he had completed his first term. Taking second preference votes into account, Ms Gillard's government would face an electoral wipeout. Once a popular political figure, Ms Gillard has seen her dissatisfaction rating soar from 29% just after she took over as prime minister to 62%. For the first time Tony Abbott, the opposition leader, has pipped her as the preferred prime minister. Even more humiliatingly, another recent poll showed that twice as many Australians wanted Mr Rudd back as Labor Party leader as those who supported Ms Gillard.

Ms Gillard battles on stoically, suggesting that things could get worse for her government before they get better. She has two more years until the next election is due. She is now counting on another milestone in the political calendar: July 4th. That is when the Senate, the upper house, convenes with its new political complexion from the federal election last August. The election left Ms Gillard leading a minority government in the lower house, after striking a deal with the Australian Greens and independents for support. The Greens will hold the balance of power in the new Senate, potentially offering a chance for some of the government's controversial plans to pass.

The most contentious is a tax on carbon emissions that is designed to tackle climate change. Ms Gillard has promised that much of the revenue will compensate households for higher energy costs. A committee of Labor, Green and independent parliamentarians (the conservative coalition opposition boycotted it) is haggling over questions such as compensation for coal-fired power stations, which produce most of Australia's electricity today.

The Greens sided with the coalition to defeat an earlier anti-carbon measure under Mr Rudd, claiming it was too weak. This time, they are signalling their support. Public backing for climate action was once quite strong. But the political squabbling has seen it evaporate. A poll on June 27th by the Lowy Institute found 39% of Australians unwilling to pay any extra electricity costs to combat climate change, almost double the number three years ago. The Greens may choose to bank what they can.

But Ms Gillard faces challenges from them over another tax, on profits from iron ore and coal, Australia's two biggest exports. This would raise about A$40 billion ($42 billion) over ten years, a sum the Greens say is too easy on mining companies riding a resources boom. Ms Gillard wants both the carbon and mining taxes in place by July 2012. Meanwhile, she is fending off attacks from all sides, including from members of her own party, over her plan to swap asylum-seekers arriving by boat in Australia with refugees from camps in Malaysia.

In all cases, Ms Gillard's dismal polls reflect questions about her political legitimacy. Her ousting of Mr Rudd still rankles, especially in Queensland, his home state. She promised before the last election not to introduce a carbon tax. Her proposed deal with Malaysia, a country that has not signed the United Nations refugee convention, flies in the face of Labor's pledge to take a more humanitarian approach than its opponents towards asylum-seekers. Mr Abbott's gibes against her over taxes seem to have increased voters' doubts.

Yet Ms Gillard cannot be counted out yet. Labor elders have warned that re

installing Mr Rudd, or yet another leader, would be folly. Her negotiating skills are one of Ms Gillard's strengths. Since the election, the government has steered 116 bills through parliament. The heads of the National Australia Bank and Westpac, two of Australia's biggest banks, have supported the carbon tax. Ms Gillard says she is "determined to push on with the agenda". She has little left to lose.

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Afghanistan

Rough riding

The country's tricky politics get ever trickier



Symbol of hope in flames

IN A cramped warehouse in the east-central town of Ghazni not long ago, 20 men, including a bunch of 15-year-olds who had bunked off school, gathered around plastic tables to empty out ballot boxes and recount votes cast during Afghanistan's parliamentary election last September. When *The Economist* arrived, all activity stopped, and a doddery high court judge overseeing the recount, goaded on by a media-conscious politician who had lost his seat, said nothing would happen until the sole media representative left.

Losing MPs are the only people monitoring the murky nationwide recount, which has been shunned by election-monitoring groups and Western diplomats. In Ghazni election-day violence and rampant fraud led to many votes from Pushtun districts being either uncast or disqualified. The seats went to Hazaras, a picked-upon minority. In the warehouse everybody was Pushtun.

The country's president, Hamid Karzai, is himself a Pushtun, the biggest ethnic group in Afghanistan. Unhappy with a national result which saw his political opponents strengthened and his fellow Pushtuns fall to a minority in parliament, Mr Karzai established a special tribunal to investigate fraud and carry out recounts.

Reporting its results, the tribunal says that a quarter of MPs should be stripped of their seats. The tribunal has no credibility among election experts. The Independent Election Commission denounces it as unconstitutional. For months Western diplomats hoped that Mr Karzai would abandon it. But with relations between Mr Karzai and the West going through another rough patch-the president recently lambasted NATO forces as "occupiers"-the matter has come to a head. Mr Karzai's office growls that there should be no "foreign interference" in the matter. Whether or not the tribunal's findings are acted upon, parliament, a much put-upon institution, will struggle to guard the last remaining shreds of its authority.



The threat of yet another constitutional crisis comes at a fraught time. Old dividing lines from the civil-war era are starting to reopen. The concerns of many Afghans who are not Pushtuns, particularly those in the north of the country, have been growing, and not just because of Mr Karzai's attempt to massage the parliament's ethnic mix. These Afghans also fear the planned withdrawal of most NATO troops by the end of 2014. And they are alarmed by the president's efforts to open peace talks with the (overwhelmingly Pushtun) Taliban. A group of northern former warlords, including Abdul Rashid Dostum (an Uzbek) and Mohammad Mohaqiq (a Hazara), both of whom supported Mr Karzai during his presidential bid in 2009, talk of establishing a formal alliance against the president.

To make matters worse, the government and its Western backers are at loggerheads over huge fraud at Kabul Bank, the country's biggest, with powerful political connections. The IMF had declared itself unimpressed by proposals to sort out the mess. Now, Afghanistan's central-bank governor has resigned and fled to America, claiming his life was in danger after he tried to get an unwilling government to investigate and prosecute those involved in the scandal.

There are also heightened fears about the country's security against insurgent attacks. Just as an initial seven provinces and cities were preparing for "transition" from international to Afghan security control at the end of June, one of Kabul's prominent hotels was attacked on June 28th by a squad of militants carrying bombs and heavy weapons. Afghan police and commandos seized control of the hotel after a bloody six-hour battle (with help from NATO air strikes). But the brazen assault on the Hotel Inter-Continental has dealt a heavy psychological blow.

Built in happier times, in the 1960s, the hotel had been scarred by rockets and factional fighting during Afghanistan's civil war. It was refurbished after 2001 as a symbol of hope in the future. To see the hilltop building lit by red tracer bullets and rocked by explosions was a harbinger of how far Afghanistan might fall if its president, its factional leaders and the country's international backers mismanage the country's tricky politics.

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Tajikistan

War of the beards

An outbreak of pogonophobia in a Central Asian autocracy



IF THE mosques are overflowing in your poor, remote outpost of the former Soviet Union, with men growing beards and women donning headscarves, how should you, a secular autocrat, deal with concerns that your people are picking up radical ideas from across the long, porous border with Afghanistan? Not, presumably as President Emomali Rakhmon is doing, by driving believers underground.

Late last year Mr Rakhmon's government stepped up a campaign to close unregistered mosques, while making it almost impossible for new mosques to register, even though government officials write the sermons. Then he ordered thousands of students of Islam abroad to return home, without offering them an alternative once they arrived. This spring police took to harassing bearded men on the streets. A professional footballer was told to shave or get off the team.

Now children and teenagers are to be banned from attending prayers. After sailing through the country's docile parliament in mid-June, a bill "on parental responsibility" is waiting for Mr Rakhmon's signature. Critics say it will be more restrictive than any rules on religion seen during 70 years of Soviet rule. A leading moderate cleric warns the law goes "against the will of God."

Secularists defend the measure as necessary to stop the spread of radical Islam. Their fears were boosted last August when 25 accused radicals broke out of a maximum-security prison in Dushanbe, the capital. A month later an ambush left at least 28 Tajik soldiers dead. Sporadic violence continues in the eastern valleys, though the fighting may have more to do with unsettled scores from Tajikistan's civil war in 1992-97, which left tens of thousands dead.

The government, which says militants are crossing the 1,400km (870-mile) border with Afghanistan, routinely jails its opponents under the cover of radicalism. This month a local BBC reporter was detained and charged with membership of a banned Islamic organisation, Hizb-ut-Tahrir. The BBC says the allegations against the reporter, Urunboy Usmonov, are designed to silence a critic.

Diplomats in Dushanbe predict that the harsh campaign will prove counter-productive. The International Crisis Group, a Brussels-based think-tank, says it is hard to imagine a series of government measures "which, taken together, would be better designed to provoke a groundswell of outrage." Muhiddin Kabiri, chair of the Islamic Renaissance Party, says pressure on Islam and on his colleagues (his party's 60-year-old press secretary was badly beaten in February) is stoking a "revolutionary atmosphere". In parliament Mr Kabiri proposed compromises over the parental law: for instance, banning children and teenagers from mosques during school hours. His proposals were ignored.

Parents can hardly ignore provisions of the pending new law. It requires children to have a "suitable name in accordance with national values". The fear is that this could be used to ban the most obviously Muslim names. The law does not say who defines national values, but there are no prizes for guessing the final arbiter.

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Justice of a kind

The second, and possibly last, trial starts amid controversy and acrimony



Nuon Chea wants nothing to do with it

THE old and withered man, adorned in what looked like an oversize tea-cosy and sunglasses, seemed an unlikely mass-murderer when he appeared in court for the first time on June 27th. That is often the way with people brought to justice long after their alleged crimes were committed. In this instance, the accused was Nuon Chea, second in seniority only to Pol Pot as a former leader of the Khmer Rouge, the Maoist movement responsible for the deaths of as many as 2m people after it seized power in Cambodia in 1975 and attempted to implement its crazed notions of Utopia. However eccentric Mr Nuon Chea looked in court, age and captivity have not softened his resolve. He remained defiant throughout, refusing to recognise the legitimacy of the court and walking out after only a brief attendance. His attire, as it turned out, was well chosen-the tuque to stave off the chill from the air-conditioning, the dark glasses to shade him from the glare of the lights.

His day in court saw the beginning of the second trial of the Extraordinary Chambers in the Courts of Cambodia (to give the tribunal prosecuting former members of the Khmer Rouge its full title). The trial will surely be a long and controversial one. One prosecutor working for the UN-backed court calls it the most "complex" since the Nuremberg hearings at the end of the second world war.

The first trial, which closed last year, was comparatively straightforward. The sole accused, Kaing Guek Eav, better known as "Duch", was contrite and pleaded guilty to charges of crimes against humanity and war crimes, committed while he ran Tuol Sleng, a notorious prison at a former school in the middle of Phnom Penh, the capital, to which 17,000 of the regime's victims were taken to be tortured and killed-only seven came out alive.

This time four defendants are on trial. All reject the charges against them and all bar one, Khieu Samphan, refuse to co-operate with the court. All were senior cadres of the Khmer Rouge. Ieng Sary was the regime's foreign minister; his wife, Ieng Thirith, served as social affairs minister; and Mr Khieu Samphan was the former head of state. Mr Nuon Chea says

that the Khmer Rouge was only defending Cambodia against foreign forces. An imperialistic United States and an expansionist Vietnam were the main culprits, in his view, and caused most of the bloodshed. Lawyers for Mr Ieng Sary argue simply that he has already received a royal pardon.

Prosecutors face the daunting task of linking them directly to specific killings. This week's proceedings were only the start of the legal skirmishing; substantive hearings are not expected to begin until September. Since all the accused are in their late 70s or early 80s, even if convicted they are unlikely to serve very much of their sentence-that is, assuming they outlive the trial.

Nonetheless, supporters of the court passionately believe that the trial marks a profound moment in modern Cambodian history. Pol Pot himself died in 1998, so these four are the most senior members of the regime left alive. It is therefore the only chance for the leaders to be held accountable for the mass-killings that occurred during nearly four years of Khmer Rouge rule. One human-rights activist, Theary Seng, acknowledged outside the court on June 27th that its work amounted to "only selective and symbolic justice". There were "extreme limitations" to the process, she said; but the goal should be the highest quality of justice within them.

However, what makes this trial especially charged is the knowledge that there may be no more. Future possible cases have become mired in the politics of the court, and in Cambodian politics more generally. The prime minister, Hun Sen, is clear that he wants this trial to be the last. He argues that more prosecutions could spark civil war or, slightly less spuriously, that they might undermine hard-won efforts at reconciliation.

Critics allege that the government has ulterior motives. Many high-ranking people in government and business had ties to the Khmer Rouge, which might be another reason why the government has tried to limit the scope of the court's investigations. Mr Hun Sen himself was a young Khmer Rouge military commander before defecting in 1977.

Either way, because the court is a hybrid, composed of both foreign and Cambodian lawyers, it cannot escape this domestic political context and exercise real independence. Such politicisation has led to many ruptures during the tribunal's life and, recently, to resignations. In April the bench ruled that the next case, known as 003, should be dropped altogether. But an international prosecutor later complained that the judges had not even questioned the suspects, let alone visited the scenes of the alleged crimes. For now, case 002 proceeds as planned, even if there will never be a successor.

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Banyan

Friends like these

Why China may worry about North Korea just as much as America does



SUCH reports have been heard before and smack of wishful thinking. But there are more reasons than usual to believe China's promises that it is trying to rein in its unruly, pugnacious little ally, North Korea. South Korea's president, Lee Myung-bak, has said that China has promised not to side with North Korea if it stages further provocations towards the South. That would be a big shift. Last year China failed to condemn either the sinking by North Korea of a South Korean naval vessel in March, or the shelling in November of a South Korean island. Now Chinese scholars and officials do indeed seem to be sending strong signals to North Korea that enough is enough.

In June Liang Guanglie, China's defence minister, told a regional-security forum in Singapore that China had done much more in communicating with North Korea "than you can imagine". At another conference, in Kuala Lumpur, Zhu Feng, a professor at Peking University, contradicted a North Korean participant who argued that the security issue on the Korean peninsula was one of reunification and a legacy of the cold war. It was also a result, Mr Zhu said, of the unchanged nature of the North Korean regime and its behaviour. North Korea, he argued, "risks biting the Chinese hand that feeds it."

China has been exasperated with North Korea before, not least in 2006, after its first test of a nuclear weapon. Mutual suspicion and animosity go back much further. In a recent paper*, You Ji, a former Chinese foreign-ministry official now at the University of New South Wales, reports that Kim Jong Il, North Korea's dictator, never forgave China for its disapproval of the hereditary succession in which he took over from his father, Kim Il Sung. Sulking, he did not visit China once from 1983 to 2000.

Since May last year, however, he has been three times. That is a symptom of his regime's greater dependence on China, which accounts for four-fifths of its trade and energy needs, and most of the food aid it gets to avert renewed famine.

The corollary of greater North Korean dependence should be greater Chinese influence. But in the past the North Korean regime has always managed to fend off unwelcome pressure by silently playing on two big Chinese strategic fears. One is that a spurned North Korea might provoke South Korea and America, triggering a cycle of retaliation and even war. The second is that it might collapse in chaos with a mass exodus of refugees into China. Any collapse would presumably be followed by reunification of the Korean peninsula under the prosperous, American-allied South. That could mean American troops stationed in a country bordering China, complicating its strategy should, for example, it ever find itself in a confrontation with America over Taiwan. Until now, the North's primitive nuclear weapons have not seemed to worry China too much. After all, they do not threaten it, and if they help the regime survive, they serve a Chinese purpose.

Last year's events may have changed these calculations. In South Korea President Lee faced criticism for not responding more robustly to the attacks. Some have called for American battlefield nuclear weapons to be stationed there, alarming China. There is also the risk that any new provocation, or mishap, could quickly get out of hand. In mid-June two South Korean marines shot their rifles at a civilian airliner landing at Incheon, the airport for Seoul, mistaking it for a North Korean plane. You Ji thinks that the Korean peninsula may have supplanted Taiwan as the potential war most worrying

China. China's North Korea-watchers also fret that the next dynastic succession, from Kim Jong Il to the plump but callow Kim Jong Un, may be more than the system can stand, leading to a military junta or civil war.

One form of Chinese pressure on North Korea is a renewed drive to help it reform the moribund economy. After Mr Kim's most recent trip to China the North announced that China would help develop three special economic zones. In the past, similar schemes have come to nought, perhaps because the Kim regime fears economic liberalisation would make the example of South Korea look even more appealing, and lead to an implosion.

Another sort of Chinese pressure is to coax North Korea back to the six-party process that it hosts for the two Koreas, America, Japan and Russia to discuss North Korean "denuclearisation". China has proposed preliminary steps-starting with inter-Korean talks, followed by North Korean-American dialogue.

The first step has so far proved out of reach because of South Korea's demand for some sort of apology for last year's outrages. That might be finessed by holding lower-level talks initially. But the big obstacles remain, and China seems unable to overcome them. America does not want to reward North Korean bad behaviour; and nobody believes it will ever fully abandon its nuclear capability. Yet at a recent nuclear conference in Seoul organised by the Asan Institute, a think-tank, Gary Samore, of America's National Security Council, made clear that the United States can never accept a nuclear-armed North Korea.

Superpowerless

In fact, America will have to resume dialogue one day. There is no other way to work towards at least capping North Korea's nuclear weaponry, which, unmolested and uninspected, it is presumably doing its best to enhance. But talks might be further delayed if the North flexes its muscles with a third nuclear test-perhaps even with a bomb made not from its dwindling stock of plutonium but from highly enriched uranium, for which last year it admitted it had a programme, shocking the world. Judging from its recent signals, China should be exerting what influence it can to prevent a new test. What is really frightening about the Kim family, however, is that not even mighty China can tell it what to do.

* "Dealing with the 'North Korea Dilemma': China's Strategic Choices" by You Ji. S. Rajaratnam School of International Studies Working Paper 229, June 2011

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Libya

In the Brother Leader's bunker

On the surface, life goes on. Beneath it, Libyans nervously watch and wait



HOURS after Colonel Muammar Qaddafi was indicted by the International Criminal Court at The Hague on June 27th, a rebel group calling itself the Free Generation Movement furtively torched a billboard in the heart of Tripoli, Libya's capital, showing him in dress uniform. The impoverished residents of Souk al-Juma, one of Tripoli's rubbish-strewn suburbs, quietly cheered the news of the arrest warrant. "I saw it on a television," whispers a delighted video-games salesman. "He's finished-game over, Qaddafi."

Maybe so. But his security service is still cracking down on Tripoli's restive suburbs. Every night armed checkpoints ensure that whole districts are locked down. Plain-clothes policemen still go from house to house, taking away suspected rebels or their sympathisers. "Some never come back," says a young man who was detained for three days.

Fear stalks the capital. If you ask people about politics, they tend to flee into the city's ill-stocked shops and unpaved alleys to escape the eyes of informers. "Neighbours are always watching," says a resident, playing loud music to avoid being overheard. He turns it up even louder at night to drown out the sound of police guns. "They shoot for hours," he says. "Often we cannot sleep."

Pictures of the colonel and the plain green flag that symbolises his rule are less common than before. Some brave residents are so keen to speak out that they accost strangers, asking if they are journalists. Some shopkeepers quietly insist on pressing gifts on foreigners or refuse payment for goods. "Thank you, America" and "Obama good", say others.

When thousands of Tripoli people rose up four months ago, inspired by rebels in Libya's eastern city, Benghazi, and elsewhere in the Arab world, they were spurred into action by the grinding poverty which many Libyans still suffer and by the stark contrast of the dank suburbs with the shiny new skyscrapers in central Tripoli occupied by the oil-rich elite tied to the colonel. "But it is not just about money," says a shopkeeper. "We also want freedom and democracy." Like many of his neighbours, he is sure the colonel is finished. "The rebels will come and save us."

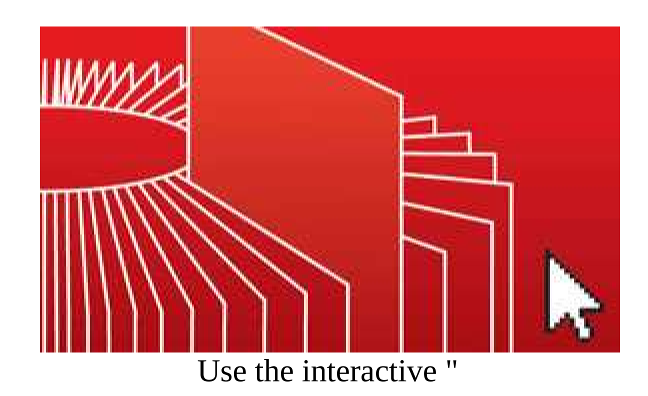
But they are taking their time. Sympathisers in Tripoli are generally lying low. Some of them attack checkpoints or provocatively paint cats and dogs the colours of the revolution (red, green and black), which the police then shoot. The opposition is hampered by the blockage of internet access and text-messaging facilities. Yet protest networks such as the Free Generation Movement still hope to prepare the ground for a post-Qaddafi transition. "We have many allies, even in the government," claims one of the group's leaders, who says he knows of ten other secret protest groups.



Some anti-Qaddafi people have left Tripoli for the Nafusa Mountains, only 100km (62 miles) south-west of the capital, where the rebels have tightened their grip and have been taking towns, such as Yafran, increasingly close to Tripoli. With the port of Misrata now also securely in rebel hands (though the colonel's forces still fire artillery into the town), the rebels are slowly advancing. Zliten is under attack. Though the oil-refinery town of Brega is still in the colonel's hands, it too is under pressure. Some youths from Tripoli say they will get weapons and military training in the mountains and then return home. "The time to fight here will come," says one.

The Nafusa rebels have cut the oil pipeline that supplied Colonel Qaddafi's last working refinery, in Zawiya. Their next target is Gharyan, a town farther east which would let them block a key supply route to the colonel, from Algeria. The rebels are lobbying Tunisia's government to close its border and cut off another conduit.

Hundreds of lorries arrive from Tunisia every day, as well as private cars laden with scarce goods. The black-market price of petrol is now 30 times more than the official rate at petrol stations, where drivers wait in mile-long queues for up to a week. Bicycles, once a rare sight, have suddenly become popular-and expensive. Traders are trying to bring in more of them from Tunisia.


Use the interactive "

Though Tripoli is now under a kind of siege, the government is still dug in. In Bab al-Aziziya, the colonel's fortified compound, buildings have been wrecked and bunkers punctured by NATO bombs. Yet the state machinery still functions. Visitors to the compound are carefully searched and bags X-rayed. The lawns in the inner sanctum are freshly mown and watered.

The colonel, it is presumed, hides in many places. Some say he sleeps in schools and hospitals, knowing NATO will not attack them. Or perhaps he spends nights in bunkers deep below his compound. On June 27th NATO destroyed a bus he is said to have used. Its charred chassis and a singed palm tree next to the colonel's white-tiled but wrecked villa were shown off to the foreign media.

The state propaganda tries to stiffen the people's resolve to resist NATO and defend their Brother Leader. Officials say they are handing out 1.2m guns to let ordinary citizens "defend themselves". Foreign correspondents were invited to a conference centre to witness some 500 middle-class women and children brandishing their newly acquired weapons. After

emotional speeches broadcast on television, the women, some with Giorgio Armani camouflage caps and high heels, took their AK-47s into the car park and fired them into the air. Male security guards joined in. "I want to save my leader," says a fervent 14-year-old, Fatima Hassan, over the noise.

Such rituals may be effective-among some sectors of society. The poor do not, on the whole, seem to love the colonel. But in middle-class districts of Tripoli the mood is more mixed. In Abu Salim, a business area (and site of a jail where 1,260 political prisoners were killed in one night in 1996), many people have benefited from the colonel's rule. "I own a comfortable house and two cars and it is safe to leave them on the street," says a 26-year-old trader. "What more do I want?"

Privately owned shops in Abu Salim sell badges showing Colonel Qaddafi in various heroic and sympathetic poses, including one alongside Saddam Hussein, and play songs with government jingles vilifying the rebels in the east. "Save our dear Misrata," goes one. Streets and shops in the district are festooned with green flags. "They are Ali Babas," says a resident of the rebels. "Thieves, terrorists." Another refers to civil strife in neighbouring Algeria in the 1990s, when some 200,000 civilians were killed. "War is not freedom."

But even in Abu Salim, people moan about inflation. Some food prices have leapt fivefold. Middle-class people say their children, especially, are suffering. "They're scared by the sound of NATO bombs," says a father. Despite the relentless propaganda, morale is steadily being eroded. Reports of defections suggest that the regime is being whittled away. The latest renegades included 17 footballers.

To keep prices down, the government has restricted cash withdrawals at banks to about $800. Fear of instability has kept money changers busy. In darkened shops bundles of notes held together by rubber bands are stacked hip-high against the walls. Rich Libyans wheel suitcases full of dinars, worth 40% less than they were before the unrest, to change them into dollars at the al-Mushir Souk, near Green Square, where the colonel used to rally his faithful.

No more. There are few visible signs of a mass uprising in the offing. But there is a sense, under the surface, that people are waiting for the regime's end.

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Yemen's turmoil

The southerners flex their muscles

A power vacuum is enabling Yemen's southerners to do what they like



BETWEEN a statue of Britain's Queen Victoria and what used to be the East German embassy, separatists who want the southern slice of Yemen to secede from the once dominant but now faltering north meet in downtown Aden, capital-until two decades ago-of the independent republic of South Yemen. Suppressed until recently as enemies of the state, they now gather openly, promoting their plan to revive southern independence. But their first aim is to organise a defence of the port city against marauding gangs of Islamists who have taken over several nearby towns and a string of villages-and against the national army still loyal to the creaking government in Sana'a, the capital, up north.

Yemen's southerners have long felt treated as second-class citizens. Ruled in the distant past by the Portuguese, the Ottoman Turks and then, until 1967, by the British, Aden fell under the influence of the Soviet Union as capital of South Yemen until, in 1990, it was united with North Yemen. It has not been a happy marriage. Many Adenis and other southerners say they detest President Ali Abdullah Saleh, a northerner who, until his recent flight to Saudi Arabia after being wounded, ran the ropily united country from Sana'a. They say Mr Saleh has siphoned off the wealth from oil in the south and east and rewarded his northern friends with juicy jobs in government and business.

"British colonialism was tame compared to this new occupation," says an Aden resident in a common refrain. "It's brutal, tribal and ignorant." But Mr Saleh's forced departure has given the restive southerners a fillip.

When on June 24th soldiers from the regular army fired on a funeral procession cum secessionist rally in Aden, they were fended off with automatic weapons and rocket-propelled grenades in a battle that lasted hours. Whole districts of Aden have been fortified and bedecked with flags of the old southern republic and with portraits of southern victims of what locals see as northern repression.

Months of nationwide protests and a quickening rate of defections from the security forces have loosened the regime's grip, feeble at the best of times, on much of the country. Greying southern secessionists recall sharing prison cells in Sana'a with northern rebels of the Houthi clan and with assorted Islamists. Now dissidents of all stripes are filling the security vacuum by carving out their own fiefs.

The province of Abyan, north-east of Aden, has been under the sway of the "soldiers of Sharia" since the national army withdrew to rural bases outside Aden in May. With heavy weapons and a web of support, this group has put many locals to flight and declared an "Islamic emirate" in the devastated towns they now run. To mounting panic, their shadowy cells have been popping up across the south. East of Aden, Islamists control the town of Zinjibar, where at least 50 people have been killed in the past few days. If the army fails to resume control, the Islamists could pour into Aden itself.

Two weeks ago hundreds of such zealots briefly took over Hawta, the capital of nearby Lahej province, due north of Aden, only to melt away a day or so later. Masked and bearded men now patrol parts of Aden's northern suburbs. The government says they carried out a car-bomb attack on an army outpost on June 24th.

Some of these groups have ties to radical tribal leaders and intelligence officials who are veterans not only of the war against the Russians in Afghanistan but who also took part in what they deemed to be a jihad against the supposedly

godless socialist south in the war for unity in 1994, which the north in effect won. But as the state unravels the allegiances of such people are likely to prove fickle.

The American administration has been quick to accuse these groups of being a front for al-Qaeda, thereby justifying the use of drones to attack them. But most southerners deny such links. Many of the gunmen, they say, are northern tribesmen and seminary students let loose by Mr Saleh (and in his absence by his friends) to persuade gullible Western governments to go on backing the regime in Sana'a. They may sympathise with al-Qaeda. But it is unclear that they have any direct attachment to it. Whatever the truth, the south is a dangerous mess where the writ of the government in Sana'a now barely runs.

The United Arab Emirates

Getting twitchy about democracy

The Arab awakening is making one of the richest of the Gulf states nervous



Slow down, says Abu Dhabi's crown prince

FOUR months ago some prominent citizens of the United Arab Emirates (UAE) addressed a petition to the country's ruler, Sheikh Khalifa bin Zayed al-Nahyan. Couched in elaborate terms of courtesy, it noted that the UAE's constitution calls for progress towards "a complete system of representative democracy". Perhaps, they suggested, his highness might consider turning the Federal National Council (FNC), a legislative body with limited powers that is half appointed and half chosen by a select college of voters, into a real parliament elected by universal suffrage.

Good news soon followed, as government officials announced a tenfold expansion, from 7,000 to nearly 80,000, in the number of citizens who would be allowed to vote in elections for the FNC later this year. On June 27th came yet more

happy news. The minister in charge of legislative affairs declared that by 2019 all Emirati citizens might have the right to vote.

Were these gracious responses to the petitioners' polite request? Not quite. The government has shown no sign of changing the FNC's toothless mandate to "discuss" legislation into anything like lawmaking. More to the point, several of the 133 original petitioners complain of receiving anonymous death threats. Five of them, including well-known bloggers and a distinguished economics lecturer, have languished in jail since being arrested in early April. Charged with threatening national security and insulting the UAE's rulers, they may face five years behind bars. A crowd of government supporters mobbed a preliminary court hearing in mid-June to heckle them as "traitors" and "Iranian agents", in what looked like a staged echo of similar taunts from loyalist commentators in the local press.

The UAE is by many standards a contented place. Its citizens, who account for less than a fifth of the country's 8.2m residents, are among the world's most pampered. They enjoy cradle-to-grave welfare lavished by the oil-rich state and the advantages of what has long been the Gulf's most open and tolerant way of life. No wonder many Emiratis think it churlish to demand such things as full political rights and free speech.

But equally, many are perplexed by what appears to be a mounting campaign against even mild dissent. Consider, for instance, the fate of two of the country's oldest civil-society institutions, the teachers' and lawyers' associations. On April 6th they issued a joint statement appealing for greater democracy. Within a month the government had dissolved both organisations' elected boards and replaced them with state appointees. In June the Gulf Research Centre, a respected privately funded think-tank that has been based for more than a decade in Dubai, one of the UAE's seven statelets, regretfully announced it was closing its offices owing to the government's unexplained failure to renew an operating licence. Other academic and research bodies complain of increasingly intrusive government scrutiny, particularly of any activity related to political reform.

A recent report by the *New York Times* on an effort by Sheikh Muhammad bin Zayed, Abu Dhabi's crown prince and the brother of its ruler, to create a crack battalion made up of foreign mercenaries has worried the reformers even more. An 800-man contingent is apparently to be trained in, among other things, crowd-control tactics against unarmed civilians.

Both external and internal factors are making the UAE authorities nervous. The most obvious is a general fear that even the UAE may be infected by the Arab spring, as democracy movements have toppled or undermined the region's republics, setting off mild rumblings in such neighbouring monarchies as Oman and Saudi Arabia. The UAE's rulers are also anxious about Iran, which occupies two small islands in the Gulf that are claimed by the emirates. The Islamic Republic is widely seen by Sunni rulers as a subversive Shia power, capable of sowing troubles, for instance in nearby Bahrain, where the Shia majority has been harshly suppressed. The UAE sent some 500 police to bolster Bahrain's Sunni ruling family.

An awkward pair

The internal change is less obvious. Created in 1971 as a federation, the UAE is run under a gentlemanly power-sharing arrangement between the seven ruling families. Abu Dhabi, by far the biggest emirate and the richest in oil, is dominant. It houses the federal capital, and its emir is the UAE's head of state. Yet until recently the commercial vigour and spectacular population growth of Dubai, which has little oil of its own, tended to balance this clout. Dubai's success also brought cachet to its model of freewheeling economics and an open society.

Hit two years ago by an embarrassing debt crisis, Dubai's ruling Maktoum family was forced to plead for help from the relatively conservative Nahyans of Abu Dhabi, whose oil wealth has soared on the back of high world prices. The gloating tone of some of the international press coverage of their distress also came as a shock. This has spurred many of the emirates' royals to take a harder political line and to heed the criticism, long whispered in Abu Dhabi, that Dubai's openness, particularly to a huge influx of foreign workers, endangers its security. Yet the openness was also to ideas, including political ones. In the longer run, a lack of those may prove to be the bigger threat.

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Zimbabwe and its diamonds

Forever dirty

Robert Mugabe is being favoured once again, to the detriment of his people

THE Kimberley Process (KP) is in danger of collapse. Set up in 2003, the system is supposed to end the trade in "blood diamonds" which illicitly finance civil wars. But its Congolese chairman has unilaterally decided to let sales from Zimbabwe's disputed Marange diamond fields resume. America, the European Union, Canada and Israel are hotly contesting the move. Rulings by the 49-member body, representing 75 diamond-producing and -trading countries, are supposed to be unanimous.

Ever since diamonds were first discovered in a 60,000-hectare site in Marange in eastern Zimbabwe in 2006, reports of killings, torture, corruption, bribery, looting, smuggling and political skulduggery have been rife. The stakes are enormous. Tendai Biti, Zimbabwe's finance minister, has described the field as "the biggest find of alluvial diamonds in the history of mankind". Potential revenue has been estimated at $1 billion-2 billion a year. One mining expert involved in the area reckons it is "much, much more". The IMF put Zimbabwe's entire GDP last year at $7.5 billion.

Following the announcement of the find by a London-registered company, African Consolidated Resources (ACR), tens of thousands of locals and foreigners rushed to the area to try their luck. Diamonds were being scooped up by the handful. President Robert Mugabe's ruling Zanu-PF party quickly moved to claim the fields as its own, cancelling ACR's prospecting rights and sending in the army to oust the panners and local inhabitants and to seal off the area. At least 200 people were killed, many of them by bullets fired from army helicopters. Some evicted civilians were then forced back by soldiers to mine the diamonds for a pittance.

In the face of growing reports of human-rights violations, the KP imposed a ban on all further sales of Marange diamonds. But production, mainly by two South African outfits in joint ventures with the Zimbabwean government, continued. By June last year 4.6m carats, worth $1.7 billion-money the cash-strapped government sorely needed-had been stockpiled. A month later, following a report by KP's monitor, Abbey Chikane, a South African, claiming that Zimbabwe was now fully complying with KP rules, two small sales of Marange diamonds were permitted, though no more since then.

On June 24th, however, at the end of a four-day KP meeting in Congo, the body's chairman, Mathieu Yamba, announced that the two Zimbabwean-South African joint ventures, Mbada Diamonds and Marange Resources, could resume diamond sales. NGOs, who have continued to monitor the disputed fields, are aghast. They say that human-rights abuses, smuggling and other blatant breaches of KP's rules are still going on, with most of the proceeds going into the pockets of army leaders and Zanu-PF bigwigs. Mr Biti says the Treasury has seen barely a cent.

Western members of the KP insist that Mr Yamba's announcement, not having been approved by the required consensus, is invalid. They, together with the World Diamond Council, are asking international diamond traders not to touch Marange diamonds. But they may not be able to stem the flood of illicit gems pouring out of Zimbabwe, to be snapped up in Bahrain, China, India and Lebanon, among others. Many poor countries have long regarded the KP as a plot by Western countries to control the diamond trade-and thereby prices. This could sound its death knell-and help Mr Mugabe keep himself and his party afloat.

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South Africa

The rise of Julius Malema

The black man who is rude about whites is doing rather well



Malignant Malema

HE USED to be dismissed as an ignorant buffoon, whose populist ranting and colourful racist tirades usefully filled newspaper column inches on a dull day. But now, following Julius Malema's triumphant re-election unopposed as leader of the powerful Youth League of the ruling African National Congress (ANC), South Africans are beginning to wonder whether they have not spawned a "dictator-in-waiting", as Helen Zille, leader of the Democratic Alliance, the main opposition party, has dubbed him.

Despite his famed "G"-a dismally low grade-for his woodwork exam in his school-leaving matriculation, Mr Malema is no fool. He has proved himself a master at politics and at tapping into the anger of his young black audiences. More than half of black youths under 25 are officially unemployed; the real figure is much higher. Two-thirds leave school without any qualifications. Most live in poor black townships or shanty towns, ineligible for state welfare. Seventeen years after the ANC came to power promising a better life for all, many can look forward only to a career of crime and drugs or to early death through AIDS.

How good, then, to be told by Mr Malema that they are in no way to blame for their plight. Scapegoats are at hand: the new greedy black elite with their hands in the public till, lazy self-seeking politicians, but most of all selfish whites-the 9 of the population who, thanks to the imperialist racist exploitation of blacks over the past 350 years, still have most of the country's land, wealth and top jobs. Despite his faulty English, the paunchy, shaven-headed 30-year-old is a brilliant orator. He cracks outrageous jokes, breaks taboos, sings the old struggle songs (including the one about "kill the Boer"), and tells his audiences what they want to hear. And they lap it up.

Whites, he tells them, have "stolen" from the blacks and must give it all back-without compensation. "Why should I pay for what I own?" White farms must be seized, Zimbabwe-style, mines and banks nationalised. It is no longer a question of whether but how this will happen, he says, despite the ANC's repeated if unconvincing assurances that this is "not government policy".

Young JuJu, as he is familiarly known, has the wind in his sails. His ego is huge. He is tough, clever and has a disarming cheeky grin. Among his heroes, he counts Zimbabwe's Robert Mugabe, Cuba's Fidel Castro and Libya's Muammar Qaddafi. President Jacob Zuma might once have been included in his list but is now the unnamed butt of much of Mr Malema's stinging criticism about a lack of leadership. Many believe he is now preparing to topple the very man he helped make king. They may be forgetting that the wily Mr Zuma can be ruthless too.

Greece's agony

What have we become?

Some Greeks are angry about their paralysed, corrupt country. Others just want the good times to come back



THEY had been warned. As Greece's 300 legislators debated, and finally approved, an internationally backed financial-rescue plan with many clear downsides-it will pile pain onto hapless firms and citizens who already pay taxes, for instance, and so subsidise those who do not-some dire pronouncements on the possible consequences of saying "no" to the world were ringing in their ears.

A group of 18 Greek economists (mostly from the nation's academic diaspora, in flight from the cronyism and disorder that mar campuses back home) listed some of the likely results if the country opted for autarky: in other words, if it stopped paying its debt and rejected the idea of moving, with foreign help, towards fiscal and administrative health. Public-sector wages would plunge, banks would crash, the country would be barred from world debt markets for years. Leaving the euro could cause hyperinflation.

Theodoros Pangalos, the famously blunt deputy prime minister, put it even more starkly. If Greece were to break with its would-be saviours and launch a new drachma, local banks would be besieged by panicked depositors and the army would have to keep order. "The shops will empty, and some people will jump out of windows," he told *El Mundo*, a Spanish daily. (Last year Mr Pangalos irked some compatriots, and impressed others, by saying that ordinary Greeks, as well as the political elite, had wasted the loans and subsidies that rained down on the country: "We ate it up together.")

Dire as these warnings sounded, this week the country still seemed finely balanced between those ready to embrace change and those who apparently dread it so much that they might bring the entire house down rather than risk any damage to their own interests. Alexis Papahelas, editor of *Kathimerini*, Greece's newspaper of record, has coined the term "coalition of the unwilling" to describe the array of ultra-leftist and ultra-traditionalist forces bent on blocking reform. As he has noted, the number of citizens sullenly suspicious of all change may now increase, as middle-class Greeks see their hard-earned prosperity go up in smoke.

On the other hand the country does have a constituency of modernisers: people depressed by interrelated woes, including a malfunctioning justice system, a kleptocratic civil service and impunity for the corrupt. Stathis Theodorakis, a television host and founder of www.protagon.gr, a popular website, says he finds keen interest among the public in various reforms that the mainstream parties would never dare to embrace: from liberalising drug laws to cleaning up the police.

And for people enraged by the impunity of the well-connected, there was satisfaction this week at the uncovering of a huge match-fixing scam in Greek football. Two club chairmen were among those arrested, as police said they had amassed a 90,000-page dossier on the affair and were investigating 85 people, from players to bookmakers. "There is a direct link between what is happening in football and broader Greek society," said Pavlos Yeroulanos, the culture and sport minister.



Explore our

If only Greece's broader woes were as easy to put right. As parliamentarians bickered and police battled demonstrators outside, rolling power cuts were imposed across the country because of a two-week-old strike by workers at the Public Power Corporation, whose powerful and privileged union is high on many people's list of impediments to sensible change. Also affected by a strike, timed to coincide with the debate on the so-called medium-term rescue plan agreed on with the European Union and the IMF, were schools and hospitals. Flights were disrupted by a stoppage of air-traffic controllers, and tourists were prevented from boarding ferries to the islands because of a picket by the communist labour movement, PAME.

This will be only a small dent, perhaps, to the confidence of Greek tour operators, who say arrivals are slightly up this year, albeit not as much as in destinations like Turkey and Cyprus. The mood on popular Aegean islands remains quite upbeat, despite a rise in panic sales of gaudy new second homes which had drawn the attention of tax collectors. Still, there is only so much tear-gas that visitors to the museums and ancient sites of downtown Athens can be expected to ingest.

Many of the malcontents-whether in unions, or the more spontaneous protesters of many ideological hues, encamped near parliament-say they were demonstrating against an entire political class; or at least the ruling Socialists and their centre-right opponents, New Democracy. One banner outside parliament asked "how many pieces of silver" politicians have taken to sell the nation.

If such protests implied a mature rejection of the country's political order, that would be encouraging. As Nikos Mouzelis, a sociologist, points out, Greece's two big parties have become machines for dispensing patronage and pork on a scale that is amazing even by the standards of Mediterranean democracy.

Can anything be done, apart from economic plans designed to stave off short-term disaster? George Papandreou, the prime minister, has floated the idea of constitutional reform that would put an end to old-time patronage politics by cutting the number of legislators and altering the electoral system. If such changes were approved in a referendum, it would mean Mr Papandreou had successfully appealed to citizens over the heads of his own parliamentarians. That may be his last, best hope of regaining the political initiative.

But it is also possible that many Greek citizens are disappointed with politicians not because they reject the old patronage system, but because it has run out of money and is now failing to provide for them. If Mr Pangalos is right that everyone ate at the trough, then some people may still be craving handouts. In that case, the people responsible for Greece's fate-at home and abroad-will now have to cope with the politics of hunger.

Russian politics

A rich man's game

Why is Russia's third-wealthiest man entering politics?



Oh do grow up, Dmitry

ANYONE watching the Kremlin over the past week might have been left with a sense of deep confusion. On June 22nd, just after Dmitry Medvedev, Russia's president, had (again) urged more political competition, the authorities barred the liberal opposition Party of People's Freedom, led by Mikhail Kasyanov, a former prime minister, and Boris Nemtsov, a former deputy prime minister, from taking part in a parliamentary election in December. "The election is losing legitimacy even before it started", says Mr Nemtsov.

Three days later, however, the Kremlin embraced Mikhail Prokhorov, a billionaire oligarch and a friend of Mr Nemtsov, as the new leader of Right Cause, another liberal party, but one approved by the authorities. The imposing Mr Prokhorov received airtime on state television and an audience with Mr Medvedev (see picture). Analysts concluded the Kremlin was revitalising an old project to fake a sense of political process. Mr Prokhorov, they said, must have been made an offer he could not refuse.

That's unlikely. One of Russia's richest men, Mr Prokhorov ran and part-owned Norilsk Nickel, an immensely complex mining firm operating north of the Arctic circle, and is nobody's fool. He has common interests with both Mr Nemtsov and Vladimir Putin, Russia's prime minister. Like Mr Nemtsov, he believes Russia urgently needs change. But like Mr Putin, he wants to avoid a revolution and a collapse that would jeopardise his wealth.

Mr Nemtsov says the difference between him and Mr Prokhorov is simple: "He wants to preserve this regime and I want to change it and build Russia without Putin and his friends." Given that the Kremlin's main objective is to hold on to power, perhaps it is unsurprising that it sees Mr Nemtsov as an enemy and Mr Prokhorov as an ally.

"We have to act, work and think like a professional and responsible party of power," Mr Prokhorov told the party convention. "I suggest we exclude the word 'opposition' from our lexicon, because for our citizens [it] is long associated not with political parties, but with some marginal groups". State television interpreted this as a sign of obedience. Mr Prokhorov meant it to show that he is serious about power.

His first goal is to get the party into parliament, which means winning over 7% of the vote in December. But his ultimate ambition may be to claw back influence from corrupt bureaucrats and security-service agents who turn their official positions to their own advantage. The prime minister's job, Mr Prokhorov says, would be nice.

Those who know him say that he is both pragmatic and risk-driven. His speech at the convention was cautious in attacking the regime but ambitious in strategy: he wants to decentralise the country, bring back mayoral elections in Moscow and St Petersburg, and turn the local heads of the police, the tax inspectorate and the courts into electable posts. This would remove the levers of repression and violence from the current bureaucracy.

Unlike Mikhail Khodorkovsky, a jailed tycoon, Mr Prokhorov has done well over the past decade. "Today, I am [rolling] in chocolate, but being just rich is not interesting for me. I am still full of strength", he had told party leaders a day earlier. The prospects for energetic, creative people in Russia are narrowing. Some 22% of people say they are considering emigrating. Mr Prokhorov appeals to people who are fed up with the system but have too much to lose by taking to the streets.

His move will certainly have been approved by Mr Putin. A generous explanation is that a regime fearful of approaching crisis wants to avoid an Egyptian scenario by co-opting the most active part of the population and offsetting the impact of Mr Putin's likely return as president. (Mr Putin's own United Russia has been dubbed a party of "thieves and crooks", and is losing support so fast that the prime minister has created an "All-Russia People's Front", hoovering up millions of state workers, agrarians and nationalists.) It could also be that the Kremlin needs a sparring partner that it can convert into a lightning-rod for people's anger with the rich and powerful when the time comes.

The Kremlin will doubtless try to use Mr Prokhorov. But he will have his own ideas about how to use the Kremlin. His chances of gaining the upper hand are slim, but with a new player the game will certainly become more lively.

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French politics

Down, but far from out

The French president may be unpopular, but don't write him off



Note to self: don't be smug

DOMINIQUE STRAUSS-KAHN'S arrest in May on charges of attempted rape and sexual assault dealt such a shock that French politics went into a state of suspended animation. This week, however, the countdown to the 2012 presidential election seemed to begin for real. Two contenders put in their names for the Socialist nomination. France got a new finance minister, after Christine Lagarde was picked to succeed Mr Strauss-Kahn as IMF boss. And President Nicolas Sarkozy launched a grand appeal to rebuild France.

The new Socialist candidates are both women: Martine Aubry, the party leader, and Segolene Royal, who lost to Mr Sarkozy in 2007. Along with Francois Hollande, Ms Royal's former partner and the party's ex-boss, they are the three front-runners for the nomination, which goes to a vote by registered left-wing supporters in a two-round primary in October. The latest polls suggest that the second-round vote will pit Mr Hollande, the favourite, against Ms Aubry.

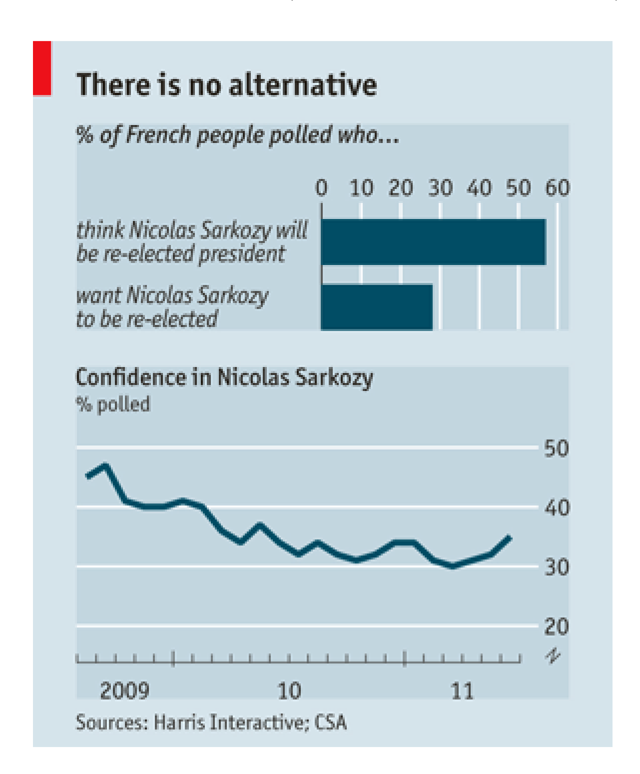
Neither candidate has anything like the international stature or experience of Mr Strauss-Kahn, whom many had expected to represent the Socialists in 2012. Mr Hollande has never held a ministerial job, though he led the party for 11 years. Ms Aubry is a former labour minister, best-known for introducing the 35-hour working week to France. Mr Hollande is the more moderate; Ms Aubry has more popular left-wing appeal. Both have built a regional fief-Mr Hollande in rural Correze; Ms Aubry in the industrial town of Lille, where she is mayor-giving them some grass-roots credibility.

On paper the Socialists should sweep to victory next year. They have not won the presidency since Francois Mitterrand was re-elected nearly a quarter of a century ago. Voters are fed up with the mercurial Mr Sarkozy; he has become the most unpopular president under the Fifth Republic a year away from a re-election bid. "He is still paying for the mistakes he made when he was first elected," laments one senior party figure. The Strauss-Kahn affair does not seem to have backfired on the Socialists. Left-wing voters appear to consider his arrest a personal difficulty, not a party matter, and have swung behind the alternatives. One poll finds that Mr Hollande would beat Mr Sarkozy by 60% to 40% in a presidential second-round vote; Ms Aubry would fare almost as well, winning by 58% to 42%.

Such numbers look crushing, and certainly Mr Sarkozy is in for a tough campaign, not least because he also faces stiff opposition from Marine Le Pen, the energetic young leader of the National Front, as well as the possibility of a centrist candidate splitting the right. However, it would be a big mistake to rule Mr Sarkozy out. In recent months, mindful of the virulent criticism of his style, he has been studiously discreet, trying hard to behave in a more presidential manner. This week, while unveiling euro35 billion ($50 billion) of investment in technology and research, the fruit of a national bond, he tried to distance himself from petty politics with lofty talk of preparing for "the France in 20 years' time". He did his

best not to look smug when he hosted world leaders at a recent G8 summit in Deauville. He has even managed not to crow publicly about the pregnancy of his wife, Carla Bruni-Sarkozy.

Mr Sarkozy may not be able to claim direct credit for Ms Lagarde's nomination to the IMF. But he selected and promoted her at home, keeping her on to become the country's longest-serving finance minister in over 30 years. Her appointment to the IMF is a small coup for France. She was replaced as finance minister by Francois Baroin, the outgoing budget minister, in a mini-reshuffle unveiled on June 29th. Valerie Pecresse, the universities minister, takes over the budget portfolio.



Another factor in Mr Sarkozy's favour is the French economy. After decent first-quarter figures, Insee, the national statistics body, forecasts GDP growth in 2011 of 2.1%-higher than the government's own estimate. The IMF states that "growth in 2011 is likely to exceed earlier expectations". The French know that they are not sheltered from the turmoil in Greece and elsewhere in the euro zone. But such trends are nonetheless comforting.

All of which seems to have led to a bottoming out of Mr Sarkozy's approval ratings, which had been in free fall over the past two years. Of ten recent polls, only one has recorded a month-on-month drop in his popularity. A CSA survey noted a steady five percentage-point rise to 35% between March and June (see chart). Most startling of all, the French seem to think that Mr Sarkozy will win next year whether they want him to or not. In a Harris poll this month, only 28% said that they wanted him to be re-elected-but 57% said that they thought he would be.

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Turkey after the election

Business as usual

It has not taken long for rancour to return to Turkish politics

RIDING on pledges of continued stability and more democracy, on June 12th Turkey's conservative Justice and Development (AK) party was returned to an unprecedented third term of office. In his victory speech the prime minister, Recep Tayyip Erdogan, declared that he would work with the opposition to write a new constitution. Yet a fortnight later

the country seems on the verge of political deadlock. At the opening session of the new parliament almost one-third of the deputies refused to be sworn in.

The largest group of refuseniks came from the main opposition Republican People's Party (CHP). Some 132 of the party's deputies declined to take their oath in protest against a court decision to keep two of their elected colleagues in prison. Mustafa Balbay, a journalist, and Mehmet Haberal, a doctor, have been awaiting trial for over two years in the so-called Ergenekon case, involving scores of generals and allies who allegedly plotted to overthrow AK.

Kemal Kilicdaroglu, the CHP's leader, says both men should be considered innocent until proven guilty and has called on Mr Erdogan to come up with legal changes that would allow them to be freed. He was quick to remind the prime minister that when he had faced similar troubles it was the CHP that helped him out. In 1998 Mr Erdogan, then mayor of Istanbul, was briefly imprisoned and barred from politics for five years after he had recited several verses from a nationalist poem that prosecutors deemed to be a call for sharia rule. When AK won power in 2002 it was only after the CHP approved constitutional tweaks that Mr Erdogan was permitted to stand in a by-election and claim the premiership.

Yet the prime minister seems unswayed. Unlike the CHP jailbirds, he says, he was prosecuted not for a "terror" crime but for his thoughts. Tell that to the pro-Kurdish Peace and Democracy Party (BDP), which is boycotting the grand national assembly altogether and collectively sulking in Diyarbakir, the Kurds' unofficial capital. Five of the party's elected members have been told by a court that they must remain in prison, where they face trial on terror-related charges. A sixth Kurdish deputy, Hatip Dicle, was barred from parliament because of a prior conviction on charges of membership of the rebel Kurdistan Workers' Party (PKK). Mr Dicle's crime was to have publicly backed the PKK's right to defend itself against the army. Yet the decision to keep him behind bars appears to contradict an earlier ruling that he should be allowed to stand for election.

AK officials hint darkly at a new Ergenekon-inspired plot to sabotage democracy. The BDP and CHP retort that the electoral board and courts are stacked with pro-AK men. Either way, what seems clear is that despite many AK-inspired reforms, Turkey's judicial and electoral system is in need of a radical overhaul.

Meanwhile, the PKK is threatening to end its truce and to carry its insurgency to the cities unless the BDP deputies are freed. But Mr Erdogan shows no signs of relenting. Judicial independence must be respected, he insists. He has spurned the CHP's demands for legal changes, saying that the opposition created the mess by fielding controversial candidates. As for the Kurds, this week Mr Erdogan rebuffed the BDP's request for a meeting.

There are several reasons for this uncompromising stance. Mr Erdogan may fear that creating legal loopholes for the jailed CHP deputies will weaken the case against the rest of the Ergenekon suspects. And he is maintaining the determinedly nationalist tone he adopted on the campaign trail, a tactic designed to steal votes from the Nationalist Action Party (MHP). Yet although an MHP deputy is also in prison, the nationalists took their oaths this week. Could a new alliance be in the works? Add the MHP's 53 seats to AK's 328 and a new constitution, which requires some cross-party support, would be in the bag. But at what price? Deepening political and economic instability and, possibly, further bloodshed seem the likely answer. The canny Mr Erdogan has always known when to pull back from the brink. The hopes are that he will do so again.

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German universities

Mediocre, but at least they're free

One by one, German states are scrapping university tuition fees



BRITISH protesters who attacked Prince Charles's car last December failed to stop a rise in university fees. Perhaps they should have taken off their clothes instead, as a group of art students in Hamburg did earlier this year. The city-state's newly elected government, formed by the Social Democratic Party (SPD), will abolish tuition fees in 2012. Hamburg is one of several German states in which new, usually left-leaning governments are bringing back free university education. Of the seven states that introduced tuition fees after the constitutional court allowed them in 2005, just two-Lower Saxony and Bavaria-plan to continue. A half-hearted experiment is fizzling out.

This is an odd way for Germany to push its universities into the top tier. No German institution is among the leaders in global rankings, and money is part of the problem. The United States spends nearly twice as much per student as Germany does. Two-thirds of American universities' revenues come from private sources, compared with just 15% in Germany. The federal government is pumping in money through programmes like the "excellence initiative", which promotes mainly research at a few select universities. But it so far has done little to improve teaching, which is what students tend to care about. Meanwhile states are cutting basic financing, notes Margret Wintermantel, head of the German Rectors' Conference.

At tertiary institutions the average professor handles 53 students, and that will rise. By shortening secondary-school study by a year, states have created a bulge of new entrants; the end of military conscription in July will add more. The extra government help universities are getting won't be enough, says Mrs Wintermantel.

Universities embraced fees as a way to improve teaching conditions. The burden on students looks light. In most states they pay euro500 ($720) per term-nothing like the mortgage-sized sums levied on American, and soon British, students. Fees produced euro1.2 billion for German universities in 2008, a modest but useful sum compared with their total spending of euro36 billion. They spend it predictably, on smaller classes, better-equipped laboratories, longer library hours and the like, usually in consultation with students.

This did not convince left-of-centre parties, which think education should be free from kindergarten to colloquium. Fees, they allege, deter potential students, especially from poor families. The money is often wasted, for example on billiard tables, barbecues and, in one case, defibrillators.

Such objections are mostly nonsense, says Ulrich Muller of CHE, a think-tank. Students can defer payments and states offer loans on easy terms. A study of western states by HIS, a state-run consultancy, found that school-leavers in states

that charge tuition are no less likely to attend university than those in non-tuition states. Graduates' extra earnings will pay for the fees many times over. Mr Muller argues that fees encourage students to think harder about what they want to study and universities to treat them with more respect. The misspending complaints are based on a few lurid press reports, he says.

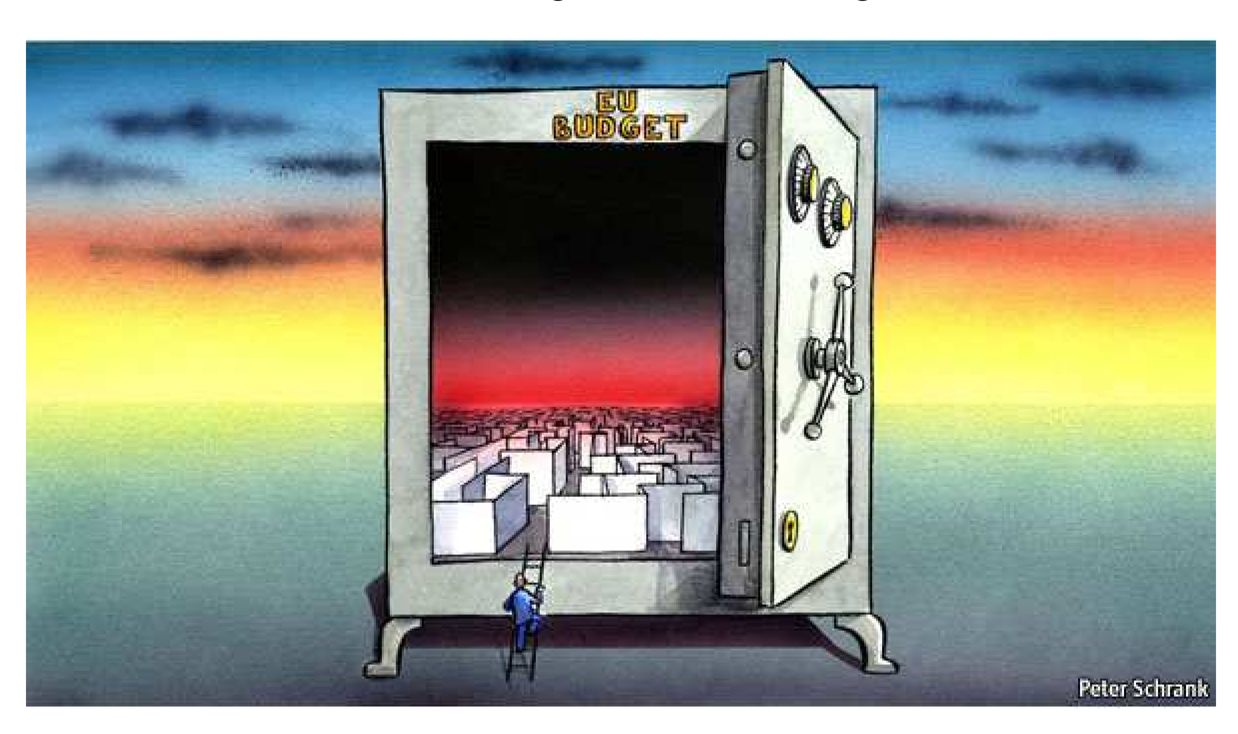
To no avail. SPD-led North Rhine-Westphalia, Germany's most populous state, and rich Baden-Wurttemberg, now run by a Green-SPD coalition, plan to join Hamburg in abolishing tuition fees. All pledge to replace the lost revenue, but such promises have been broken before. Hamburg's naked art students may rue their victory.

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Charlemagne

The seven-yearly war

There will be much blood and tears over the EU budget, but little will change. What a waste



THE standards have been raised. The clarion has sounded. Europe's nations are marching to the long battle that is the negotiation over the European Union's next seven-yearly budget. This time the fight for money could be even bloodier than in the past. But it is unlikely to be any more decisive.

The rivals have prepared for months. Five of the biggest net contributors to the EU-Britain, Germany, France, the Netherlands and Finland-have said that the 2014-20 budget should grow more slowly than inflation, ie, a cut in real terms. The EU, they say, should submit to the same austerity as its members. The British prime minister, David Cameron, has fired some harassing shots, expressing "immense frustration" at the cost of a new eco-friendly building in Brussels, called "Europa", that will house summits and the leaders' "president", Herman Van Rompuy.

Against them line up the big recipients, above all Poland, that fear a loss of funds. The European Parliament, the champion of EU spending, wants a 5% increase in the budget as a share of European states' national income (the rise would be bigger in real terms, barring a recession). It says the EU needs more money to meet its members' demands, among them creating a diplomatic service, supporting the Arab spring and fighting climate change.

This week the European Commission (the EU's civil service) split the difference with what it called an "ambitious but responsible" proposal, though its muddled announcement hardly inspires confidence about its pledge to be transparent. The commission notes that, for all the talk of wasteful spending and pampered Eurocrats, its own running costs are 6% of the budget total. EU spending, in turn, amounts to just 2% of national budgets. "In every country there is a day when people stop working for the taxman and start earning for themselves," says a senior Eurocrat. "In Belgium it happens some time in August. For the EU it is January 4th." The trouble is, many taxpayers see EU spending as an extra burden; they do not want budget rises to mean they start earning for themselves in September.

One of the most vexed, and ultimately pointless, fights will be over "own resources". In the past the EU has been financed mostly out of customs duties and agricultural levies. But these "traditional own resources" have dwindled thanks to trade liberalisation. About three-quarters of the budget is now funded directly by governments. Critics say this encourages selfish haggling and rigidity. "If France were to be financed by its 27 regions or Germany by its 16 *LÃ¤nder* or America by its 50 states, they would be paralysed," says Alain Lamassoure, chairman of the European Parliament's budget committee. His answer is to raise money directly from the citizenry.

Two methods are proposed by the commission: a financial-transaction tax (popular, though of questionable use if not done globally) and a European VAT (easy to raise but unpopular). The EU says such new taxes will allow governments to reduce their own contributions. Like much else in the budget dispute, this is a smokescreen. It does not matter if the EU's money comes from the taxpayer's left or right pocket. States will block any pretence by the EU to acquire independent tax-raising powers. Any new taxes will be collected first by governments; so any euro handed to Brussels is a euro that is not available for spending at home.

The EU's bigger share of "own resources" did not stop the then British prime minister, Margaret Thatcher, from securing a rebate in 1984. There will be fights over the commission's attempt to simplify the rebate, and the bewildering "rebates on the rebate" given to Germany, the Netherlands, Austria and Sweden. Though smaller than it was, the rebate remains totemic. Britain says it is needed as long as the EU budget, particularly the common agricultural policy (CAP), is not reformed. And France will not talk of change before next year's presidential election. So when the matter is finally settled (probably in late 2012) the likeliest outcome is stalemate. Nobody wants to undo the interlocked compromises of the past-even Britain has gone quiet on CAP-and there will not be much to spend on new priorities. The commission itself admits its budget is a matter of "evolution, not revolution".

If not now, when?

This may be as much as can be expected from a union in which 27 members must decide money matters unanimously. But it is still a wasted opportunity. If the aftermath of the most severe financial crisis in seven decades is not the right time for reform, then when is? For some critics, any spending by the EU will always be too much. But even those who value the union despair at the complexity and absurdity of its finances.

Were the Treaty of Rome signed today, the EU would not choose to spend two-fifths of its budget on agriculture. True, the butter mountains of old have disappeared, the CAP is shrinking and the EU does have a role to play in regulating agriculture. But the CAP is mostly a social-welfare programme, and that should be a matter for national governments. How to justify the iniquity of richer farmers in western Europe being paid far more than those in poorer central and eastern states? An equally big item is the "cohesion" policy for poorer states and regions. Richer countries should help poorer ones, but recycling money through Brussels for their own less well-off regions benefits only Eurocrats.

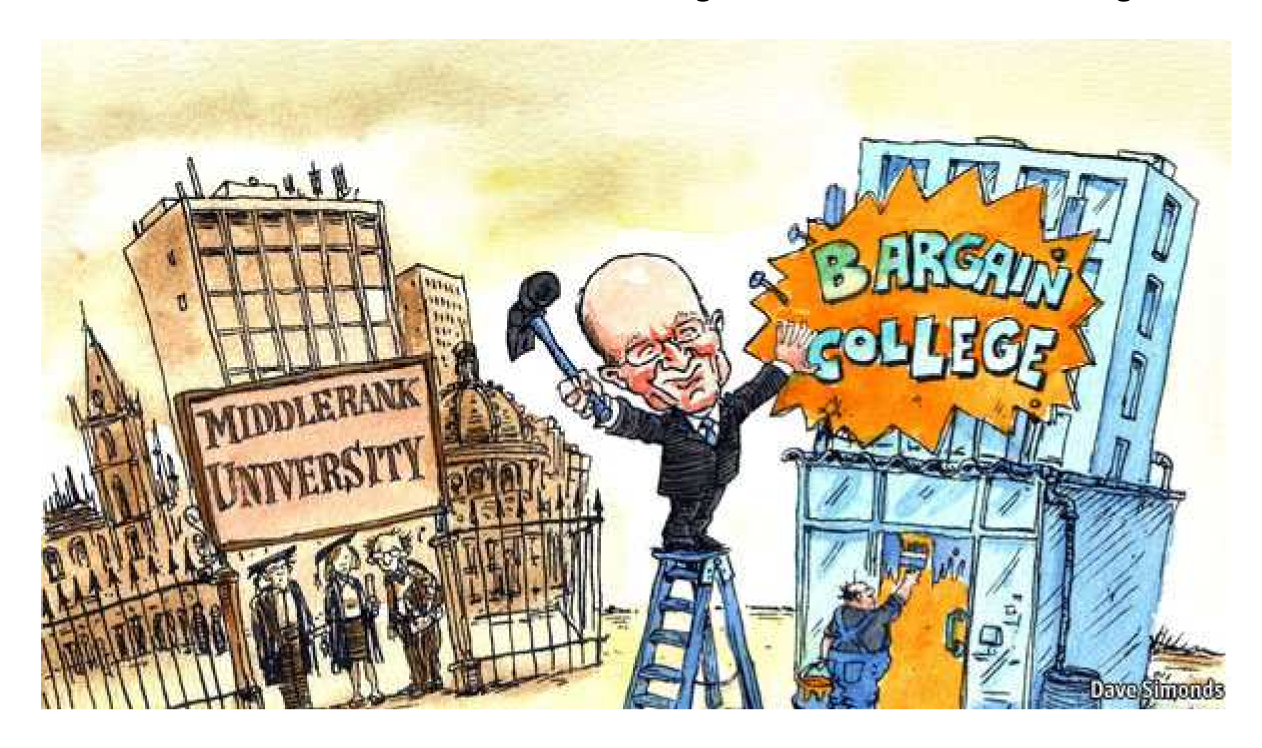
What Europe needs, above all, is economic growth. The first job should be to avoid waste, such as parliamentary sessions in Strasbourg and ministerial ones in Luxembourg. What money the EU does spend would be better devoted to investment: linking trans-European transport and energy networks, say, or boosting the administrative capacity of weaker countries. Mr Barroso argues for all this. But as the war cry goes up, his courage to reform is failing him.

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Tinkering with the ivories

The government launches another bid to create a market in higher education while containing its costs



IN A crowded field of U-turns and climb-downs, the government's bid to reform university finance has earned special distinction for its mix of unpopularity and unintended consequences. Last year, in a bid to transfer most of the spiralling costs of tuition from the state to students, the Conservative-Liberal Democrat coalition raised the maximum fees English universities can charge, while slashing the exchequer's contribution to teaching. The aim was both to ease the pressure on the public purse from rising student numbers, and to create a market in which universities compete for students on cost and quality.

The plan failed on both counts-but ignited riots among students and ire among parents and lecturers. On June 28th the coalition unveiled new proposals to contain costs and facilitate choice, by letting both good and cheap universities expand.

At the root of the government's trouble has been a simple miscalculation. When, last year, Parliament voted to increase the maximum annual tuition fee from pound3,375 ($5,400) to pound9,000 from September 2012, David Willetts, the higher education minister, said the full whack would be charged only in "exceptional circumstances". He was wrong. Most universities have chosen to ask pound9,000; middling institutions have raised their fees in line with the elite, safe in the knowledge that demand for places is so strong that theirs will still be filled. The result is that, on average, university education in England will soon be as expensive as in America (Scotland and Wales have their own regimes).

Like the spiralling costs of health care, the upward trend in university-tuition fees is a global one. In America the price of tuition has risen faster than other measures of inflation for the past three decades: as high fees threaten to outstrip the returns to graduates in their later careers, there is talk of an unsustainable bubble in higher education. In Britain, the price will have increased eightfold over the 13 years to 2012. Fees are rising across Asia and Europe, too.

One reason for the expense is perception: students view price as a proxy for quality; universities worry that low fees will signal a second-rate product. Another is that, in many countries, the state lends students the funds to pay for their courses, with the effect of driving up demand even if prices become eye-watering.

The squeezed middle

One such place is England, where fee increases have stark consequences for the pinched Treasury. Under the system unveiled last year, the exchequer forks out for the fees; graduates begin to pay these loans back when they are earning pound21,000. The sums owed by students and graduates are set to double to pound70 billion in the next six years-and Mr Willetts reckons that 30% of all loans will be end up being forgiven, under rules that cancel the debts of low-earners after 30 years. Meanwhile demand for places continues to climb, driven, in the short-term, by a lack of jobs for school-leavers in the struggling economy and, in the long-term, by the growth of the aspirational middle class.

The solution unveiled this week is fiddly. For the past 20 years, the state has set a cap on the number of students that each university can accept. Mr Willetts intends to introduce a new contest, in which around 5% of the total places are available only to institutions that charge tuition fees of pound7,500 or less.

Meanwhile those universities that attract highly qualified students-ie, those who get two A grades and a B or better in their A-levels, the exams most pupils sit at 18-can expand to take as many as they want. Some 20% of students attain these grades. The aim is to put pressure on mediocre universities to drop their prices, or risk losing both their clever students to their superior rivals and parsimonious types to the cheap-and-cheerful.

And Mr Willetts wants to entice more low-cost providers into the system. Students enrolled at for-profit institutions offering cheap courses will be eligible for state-supported loans. Local vocational colleges are to be allowed to teach degree courses, with the exams set by universities. Mr Willetts also wants to create more discerning, better-informed consumers: universities will be obliged to provide more information on how many hours they teach, and the careers and salaries their graduates enjoy. (More youngsters may one day infer that the investment of time and money is not worthwhile: according to Ian Walker of Lancaster University, even before the coming jump in fees a male arts graduate with a lacklustre degree would be better-off over his lifetime if he had gone straight into employment at 18.)

Will it work? Since the cost of educating an undergraduate at some of the best universities is not wholly covered even by the higher fees, some have no intention to expand their student rolls, so some high-achievers will be turned away. Declining student numbers at mediocre institutions that are unable to compete at either the top or bottom end of the market might in theory force them to close; but their importance to their local economies will make axing them difficult, and in practice they might be taken over by a neighbour.

There have been predictable objections to the plan, on these practical grounds and others. Although universities have, in theory, always been private institutions that compete to attract the best students, many lecturers resent the explicit involvement of market pressures. Others point out that the market will be rigged. Paul Greatrix of the University of Nottingham says "there is a paradox in these proposals, which talk the language of markets and deregulation but actually increase regulation."

The grumpiness is not confined to bolshy academics and rioting students. University funding has created tension in the coalition: already embarrassed by their broken election pledge to oppose any increase in fees, the Lib Dems are irritated that these proposals only pay lip service to fair access for pupils from poor backgrounds. They want universities to admit more of them; policies intended to force them to will be unveiled later this month-to the chagrin of many Tories.

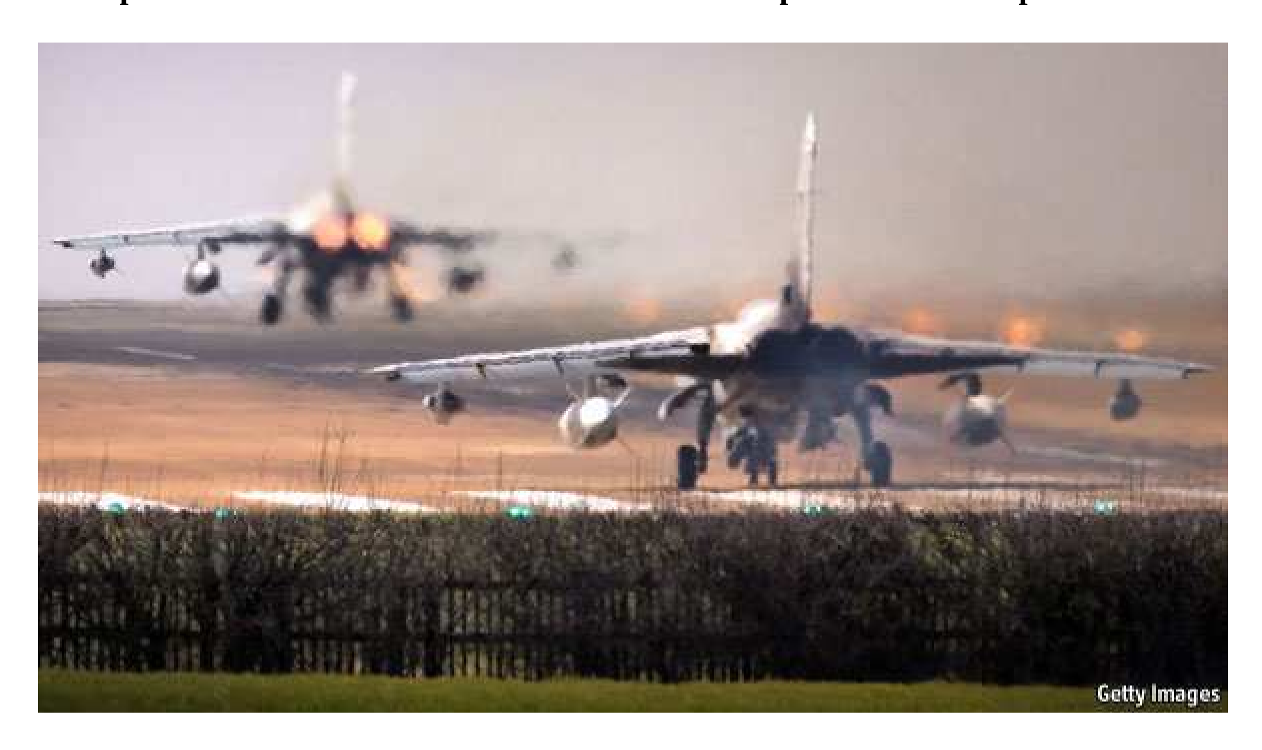
This is a volatile issue: Tony Blair's efforts to increase tuition fees were more contentious in Parliament than his decision to wage war on Iraq. There is good news, then, for those who enjoy parliamentary pyrotechnics: Mr Willetts's plan seems destined to protract the debate over university funding rather than resolve it.

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Defence reform

Dr Fox's new model MoD

This week's shake-up of the defence establishment is sensible-but its problems run deep



IT IS hard not to feel a pang of sympathy for Liam Fox, Britain's pugnacious defence secretary. No minister in the incoming coalition government last year inherited a bigger mess or a more dysfunctional department.

George Osborne, the chancellor of the exchequer, reportedly observed that the defence budget was "the most chaotic, the most disorganised, the most overcommitted." In addition to the 8% cut in its funding (over four years) demanded as part of the government's fiscal-austerity plan, the Ministry of Defence (MoD) has somehow to close an unfunded liability of pound38 billion ($61 billion) up to 2020. This week, just before announcing a major shake-up of the way his department and the armed forces are run, Dr Fox said: "The future defence programme was worse than a delusion-it was a deliberate lie."

The changes he is now determined to push through are based on recommendations made by Lord Levene, a businessman who attempted (with limited success) to bring some commercial discipline to the MoD in the 1980s, when Lady Thatcher was prime minister. Lord Levene does not claim that his plan will do much to bring the overheated budget under control in the short term. But he argues that the hapless way the MoD was run in the past largely explains the loss of budgetary control. His proposals are designed to improve strategic leadership and accountability, reduce infighting between the services and achieve better operational integration between them, while culling the bloated ranks of senior officers (in relation to its size, the British Army has four times as many generals as the US Army).

At the heart of Lord Levene's plan is a new slimmed-down Defence Board, the MoD's senior decision-making body, which will be chaired by the secretary of state and will no longer include the three service chiefs. There will be a fresh emphasis on integrating the armed forces through the establishment of a Joint Forces Command led by a four-star officer. That will bring together capabilities such as logistics, planning, intelligence, cyber and some equipment purchases. Dr Fox sees the Joint Forces Command as both an important organisation in its own right and a symbol of the ethos of co-operation and flexibility he wants to cultivate.

One consequence is that the role of the three service chiefs in influencing departmental strategy and resource allocations will be sharply reduced. They will be kept busy by being given greater responsibility for managing their own budgets. Lord Levene also wants to see a halt to the merry-go-round of staff changes that undermines accountability by insisting that senior military and civilian staff should stay in their posts for at least four years.

This is all sensible stuff. It is high time that the structure of Britain's armed forces was decided by more rational means than rancorous and myopic bargaining between the services. There is, however, still a missing piece: a fix for the broken acquisition system. Dr Fox promises that Bernard Gray, the recently appointed and highly rated chief of defence materiel, will announce proposals for ending the procurement shambles before the end of the year.

Even so, there is only so much Dr Fox can do at the level of departmental efficiency while the government refuses to provide the cash to match its lofty strategic ambition. "Britain's national interest requires us to reject any notion of the shrinkage of our influence," declared a strategy document last year. But the budget was slashed all the same.

That contradiction has been highlighted by David Cameron's decision to intervene in Libya. Last month the prime minister rebuked service chiefs for their highly public moaning about the strain the Libyan campaign is putting on their men and machines: he said that they should stick to fighting and leave the talking to him. This week Dr Fox came close to accusing two of the moaners-the first sea lord, Admiral Sir Mark Stanhope, and Air Chief Marshal Sir Simon Bryant-of giving aid and comfort to the enemy. But their concerns, although expressed at the wrong time, are not frivolous. As long as commitments outstrip resources, even Dr Fox's new model MoD will struggle to cope.

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Northern Ireland's economy

Getting back to business

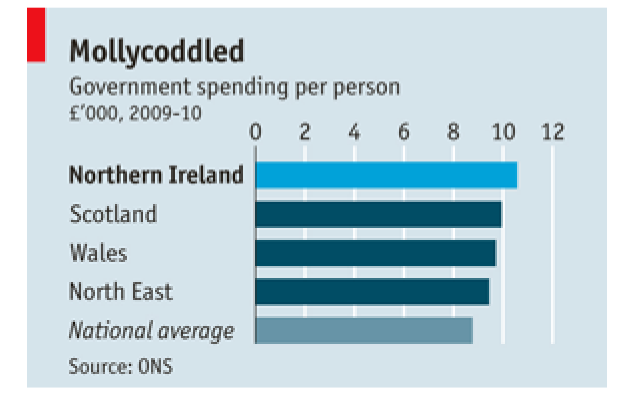
As violence recedes, Ulster must wean its economy off state subsidies



On with the show, at Harland and Wolff's Paint Hall

ON THE waterfront in Belfast stand two giant gantry cranes, silent reminders that the city was once home to one of the world's biggest shipbuilders. At its peak Harland and Wolff employed 35,000 people to make the ships that linked Britain to its empire and defended it in wartime (as well as the doomed *Titanic*). In 2003, with just 135 workers, the firm officially registered as a small business. Shipbuilding had moved on, leaving the skeletons of bygone prosperity in its wake.

Today the shipyard has found a new role building offshore wind turbines. Its vast Paint Hall has become a film studio; last month HBO, an American broadcaster, signed up to shoot a second series of "Game of Thrones" there. Not far away, Short Brothers, which made planes for the Wright brothers, is preparing to build sophisticated wings for new aircraft to be launched by its Canadian owner, Bombardier. NYSE Technologies has chosen Belfast's revamped "Titanic Quarter" as a centre for developing global trading systems.



Like other old manufacturing strongholds, Northern Ireland is having to reinvent its economy-but with a twist. From the late 1960s until the peace deal of 1998 was seen to take root, the Troubles limited high-quality inward investment, stifled indigenous entrepreneurs and prompted many of Ulster's ablest offspring to flee. The British government threw money at the place in the hope of easing sectarian tensions and luring the province's politicians to the negotiating table.

Today, almost one in three employed workers is in the public sector. State spending per head is even higher than in England's hard-hit North East (see chart). Three-quarters of regional GDP depends on it. Now the mollycoddling is set to stop. As the Titanic Quarter demonstrates, Northern Ireland has begun to adapt to the post-industrial world. But it still faces an exceptionally tricky transition from overdependence on the state.

From hulls to high-tech

With republicans and unionists now sharing devolved power at Stormont, and Britain's coffers depleted, Northern Ireland is grappling with the first cut to its grant from London: not a huge cut-6.9% over four years-but few doubt that bigger ones are coming. At least 20,000 public-sector jobs could vanish, which the private sector will struggle to replace. On current form, economists such as Esmond Birnie of PricewaterhouseCoopers, a consulting firm, expect lacklustre economic growth at best.

Panos Lioulias, chief executive of Qubis, a venture-capital outfit that nurtures spin-offs from Queen's University in Belfast, thinks indigenous entrepreneurs are a big part of the remedy. Northern Ireland's universities turn out top-notch graduates in physics, life sciences, computing and the like-the basic stuff of start-ups. One of Qubis's stars is Andor, founded in 1989 by a physics graduate student, Hugh Cormican, who hit on new imaging technology. Andor went public in 2004 and is now valued at pound195m ($314m). Sheena Lewis, an academic biologist, launched new diagnostic tests for male infertility in May; she says she is already getting inquiries from India and China.

But such firms, however successful, offer a limited number of jobs: Andor employs only 300 people. So for many, foreign direct investment is the real key. In the past, as the Republic of Ireland was attracting the likes of Google and Dell, its troubled northern neighbour found it tougher, despite offering low costs and desirable skills. That has begun to change-and not only because of economic turmoil in the south.

Many businessmen praise Invest Northern Ireland, the agency charged with regional development, for pulling in high-quality inward investment, especially in finance, technology and business services. In the 12 months to March it secured over 2,800 new jobs, 80% of them paying above the private-sector average. The hitch is that, under EU rules, the state financial aid that lubricated such deals will end in 2013.

Northern Ireland is now agitating to cut its corporation-tax rate from Britain's 26% to something more like the 12.5% in Ireland. "With this tool we will not only grow the Northern Ireland economy but also contribute to the UK's," says Arlene Foster, enterprise minister at Stormont. London may well agree-if the province gives up some of its central-government grant in exchange. Others argue that inward investment will anyway be constrained by economic woes elsewhere, and that Ulster's best asset is its educated workers, so any gamble that imperils the funding of public services is a mistake. A decision is expected from Whitehall in the autumn.

Can Northern Ireland regain in the early 21st century a measure of the economic success it enjoyed in the early 20th? A lot hangs on the answer. The Catholic middle class has grown as laws against discrimination have taken effect; perhaps as

a result, support among Catholics for reunification with Ireland has declined. But many working-class Protestant boys now feel disenfranchised, as recent violence in east Belfast suggests. More and better jobs, and rising living standards, may not be enough to banish the sectarian divide, but their absence could well widen it again.

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Strikes and the law

Striking while it's hot

The pros and cons of tightening the rules on industrial action

AS *The Economist* went to press on June 30th, a mums' army was mobilising to keep schools open during a one-day teachers' strike. Airports faced disruption from a walkout of border staff; university lecturers were joining them. Their unions are protesting about changes to public-sector pensions. Some others, such as Boris Johnson, the mayor of London, suggest that something legislative should be done to make such disruptions less likely.

Could and should it? At present there is no minimum turnout for strike ballots, meaning that stoppages can go ahead based on the votes of relatively small numbers. Only 20% of those eligible to vote in the ballot held by the Public and Commercial Services Union, which represents civil servants, supported the walkout; the figure for the National Union of Teachers was 37%. The CBI, an employers' body, thinks at least 40% of the eligible workforce should vote for a strike before it is approved.

Formally, Britain still has strict strike laws. There is no enshrined right to down tools, as there is in France and Italy. In practice, the situation is a muddle. In particular, some public servants with essential duties, such as firefighters, may strike; the police and the armed forces may not. Ditto prison officers-but they sometimes do anyway. Employers use temporary injunctions and legal challenges to buy negotiating time when strikes loom.

Other countries, including new democracies such as Poland and Latvia, have introduced minimum turnout requirements for strike ballots. France has a "minimum-service law", to ensure schools stay open and skeleton transport services operate during walkouts. Under these arrangements transport companies (for example) are obliged to use all possible means to keep passengers moving-or refund them. Any resulting cost can, at least in theory, be recouped from the government, part-funded by the docked wages of strikers. The Institute of Economic Affairs, a pro-market think-tank, recommends a shift away from national pay bargaining to locally negotiated agreements, taking local economic circumstances into account, which would reduce the power of national unions.

So far, appetite for radical change seems scant among ministers. David Cameron has ringingly declared the strikes "wrong", but not responded to calls for tighter legislation. That is partly because he wants to avoid appearing hellbent on strife. But the restrained stance has practical as well as political motives. A requirement for a minimum turnout in votes for industrial action would make unions work harder to boost participation in ballots and thus increase their propaganda effort. Employers would do likewise, says Simon Ost, a lawyer specialising in industrial disputes: "The respective positions would most likely become more entrenched, making disputes more difficult to resolve."

Still, this may only be the start of a summer of trouble. Bullish trade union bosses, long on the sidelines of public life, are back in the news. Keeping the temperature of the conflict down might be rational. That doesn't mean it will be possible.

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Solar power

The living is easy

Why Britain should never count on sunshine for its power



Green bling on Clarence House

FAMED for its dismal climate, Britain is not an obvious pioneer of solar energy. But, in their efforts to maximise small-scale electricity generation and reach ambitious carbon-reduction targets, successive governments have bet heavily on the sun's rays. The outlook for that strategy is increasingly cloudy.

In 2010 the previous, Labour administration introduced subsidies for all types of small-scale electricity generation. In practice that mostly means solar: 97% of the take-up has been to install photovoltaic panels. The coalition has added some "Big Society" rhetoric, exhorting individuals to be part of the fight against climate change.

The theoretical appeal of solar energy is glaring: it is clean and ubiquitous. But, like other efforts to increase localism, this one requires central intervention and financing. Anyone who pays the pound12,000 that a standard panel system typically costs can expect a return of around 10% for 25 years: given Britain's limited summertime, that's a pretty easy living. More than 40,000 houses are now adorned with "green bling" (including Clarence House, Prince Charles's London home, below).

Britain needs to increase its capacity for electricity generation because all but one of the country's nuclear facilities, and half of its coal power plants, are due to shut by 2023. Gas is an obvious and affordable short-term fix. But the government has committed to ambitious targets to cut planet-heating emissions by 80% by 2050, compared with 1990 levels. That means using cleaner power; the question is whether solar is the best source.

Many other European countries deploy similar subsidies. But critics argue that solar energy can never play a central role in such a grey country. In Britain, consumption is lowest when the sun shines. And since the technology does not yet exist to store the electricity generated, conventional power plants are still needed during high demand. According to the

government's own projections, by 2020 all small-scale generation will only amount to less than 2% of current electricity output.

Solar subsidies are also expensive. The government estimates the net cost of small-scale generation will be more than pound8 billion over 20 years-to be raised through higher energy bills. This makes solar subsidies regressive: poor people spend a larger share of their income on fuel than the rich. The perks, meanwhile, go to those with panels-often wealthier homeowners. So community engagement in the fight against climate change may have a flip side, predicts Dieter Helm of Oxford University: rising bills could prompt a backlash against climate-change goals.

The subsidy is designed to help make solar technology affordable by stimulating mass production and innovation. But the British market is too small to have much influence on solar-panel prices. And since the government recently cut subsidies to commercial solar farms, the policy now focuses on the least cost-effective examples of an inefficient technology. Worryingly, Britain's energy regulator does not even collect data on how much electricity each subsidised household generates, which will make it harder to assess efficiency.

Meanwhile solar subsidies threaten investment in other renewables, and distract from efforts to persuade people to make their homes more energy-efficient. Perhaps Britain should have learned not to count on sunshine.

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Boris versus Ken

The rematch

Why the incumbent is the early favourite in London's mayoral race

THE two main candidates have been in place for a while but only now is the race to be the next mayor of London taking shape. Campaigning has begun for the contest in May 2012; Westminster politicians are starting to take an interest. Boris Johnson, the Conservative incumbent, is the narrow favourite to beat Ken Livingstone, his Labour predecessor, who also ran the old Greater London Council in the 1980s. A YouGov poll released on June 21st put Mr Johnson ahead by 48% to 41%.

The mayor's chaotic charisma helps to compensate for his liabilities, such as his unapologetic Toryism in a left-leaning city and his links with an unloved central government. But there are deeper reasons for Mr Johnson's lead.

If not spectacular, his record is at least better than many expected of a politician who rarely shone as an MP. As well as the sort of small victories that are within the reach of the relatively weak mayoralty-a bicycle-hire scheme, the freezing of the local taxes claimed by City Hall-he won a generous financial settlement for London from the Treasury in last year's spending review. As a result, its transport network will continue to expand during an era of general austerity, even as rival cities such as New York face cuts, says Tony Travers of the London School of Economics.

London has also weathered the recession much better than many economists, anxious about the fate of the City, predicted. Far from suffering more than the country as a whole, the capital experienced a smaller rise in unemployment than Britain generally, according to official statistics. House prices in London have also recovered faster than those in any other region. Even if Mr Johnson cannot claim much credit for that economic resilience, it should help him.

None of this means that Mr Livingstone is doomed. Of serving politicians, perhaps only George Osborne, the chancellor of the exchequer, and Alex Salmond, Scotland's first minister, rival him for sheer wiliness. His attacks on Mr Johnson's failure to avert strikes by Tube drivers could resonate; voters might recall Mr Livingstone's knack for doing deals with the unions.

And Mr Livingstone is keenly aware of his perceived indifference to the city's outskirts; having lost in 2008 to Mr Johnson's "doughnut" strategy, which targeted suburban voters, he is campaigning assiduously in those areas. Still, a 66-year-old hoping to run London, a youthful city, for a third time probably needs a big new idea-like the congestion charge Mr Livingstone implemented as mayor-to avoid looking like yesterday's man.

Westminster's interest in the race is understandable: it is rich with implications for national politics. Defeat for Mr Johnson would be a mid-term blow to David Cameron; victory would encourage the idea that the mayor could succeed him as Tory leader, a goal that Mr Johnson sometimes seems to be pursuing. As for Mr Livingstone: the prospect of a vituperative left-winger being one of the most prominent Labour politicians during the race, and possibly beyond, alarms some in the party. But were he to lose, the sense that Labour is failing to make headway under Ed Miliband, its beleaguered leader, will grow.

Ghost Tube stations

What lies beneath

The eerie allure of subterranean London



THE scrum of rush-hour on the Tube is often inhumane. But London's empty stations can be as intimidating as its overcrowded ones. The vacant rooms at Brompton Road are hung with stalactites and light-bulbs that have been switched off for half a century. The air is musty and mote-filled, rippling only when trains pass through the defunct platforms.

Brompton Road station closed in 1934-though it was used as the headquarters of an anti-aircraft division during the Blitz, and, according to a senior officer in the RAF squadron that now occupies part of the building, the renegade Nazi Rudolf Hess was interrogated there. It is one of around 40 disused Tube stations in London; most closed because they weren't very busy. With their hidden platforms and old bomb shelters, these ghost stations have acquired a patina of romance along with their layers of dust, often featuring in films and television dramas.

They seem to have commercial as well as nostalgic appeal. Ajit Chambers, a former banker who says he has backing from foreign investors, is lobbying Boris Johnson, the capital's mayor, to support his bid to revamp a clutch of former Tube stops. Mr Chambers wants to enliven the quiet platforms and concourses with museums, restaurants and nightclubs, and to put rock-climbing facilities in abandoned lift shafts.

He is not the first London entrepreneur to look below ground for recreation space: after renovations, nightclubs have opened in what were once subterranean public lavatories in Shoreditch and on the Strand. The motive is not, as you might expect, the difficulty of finding reasonably priced property above ground; rather developers seem to be excited by the mystique and ambience of these architectural curios.

In fact the cost and difficulty of redeveloping old Tube stations may yet prove prohibitive. The government body that looks after Brompton Road on behalf of the Ministry of Defence is keen on Mr Chambers's plan to overhaul it; but Transport for London, the transport authority that controls the other sites, worries about the safety implications of reviving them. Down amid the eerie dereliction, both the allure and the scepticism are understandable. Picking your way down a spiral staircase at Brompton Road, your hand runs over art-nouveau wall tiles in green, cream and brown. A map of London from 1942 is tacked to the wall of one deep chamber. A nearby door is marked "Danger-Ammunition."

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Bagehot

The awful warning of the 1980s

The British public does not want a return to industrial confrontation



TO THIS day, two historical shadows loom over English towns such as Mexborough, a former mining town in the Labour heartland of south Yorkshire. The spectres are of two living but long-retired enemies: Margaret Thatcher and Arthur Scargill, respectively the former prime minister and a miners' union leader whose clash during the miners' strike of 1984 and 1985 was a turning point in British industrial relations.

Mexborough will shed few tears when Lady Thatcher dies, says Howard Lawton, a former steelworker shopping in the high street, a bleak strip lined with charity and discount shops and stores offering payday loans. The former prime minister destroyed British industry to crush powerful unions, Mr Lawton charges, above all Mr Scargill's National Union of Mineworkers. Like most Mexborough locals Bagehot interviewed this week, he backed a big national strike called for June 30th by teachers and other public-sector unions against changes to their pensions and a rise in their retirement age to 66.

Trade-union loyalty runs deep in Mexborough, whose local MP is Ed Miliband, the current Labour leader. So does a sense of physical solidarity. In Mexborough, 66 is old. The high street whirrs with electric three-wheeled scooters, carrying stick-thin ex-miners looking a decade older than their years. "People aren't going to get to retire," predicts Christine Barker, a former dental receptionist. Alan Hinchcliffe, a retired lorry driver now hunched in a scooter, fag in hand, rasps: "They didn't complain about the people dying young in the mines and steel works, did they?"

Yet Mr Scargill-whose obduracy and militancy led his miners to crushing defeat-also haunts Mexborough. Backing for the strike is frequently tempered with anxiety that it will do no good. An ex-miner ("ten years down the Manvers pit") worries that public-sector unions are making a grave mistake. "In the '80s we had the miners' strike, and what came out of that? Nothing." Even John Coward, the local divisional secretary of the National Union of Teachers, one of the unions behind the June 30th strike, admits that securing public support is a challenge. The 1980s are remembered with bitterness, not triumphalism, he says: the era is seen as a civil war, "and a civil war that we lost".

Such wary, painful memories extend far beyond spots like Mexborough to the seat of power in Westminster. Memories of the Thatcher-Scargill conflict divide British politics to this day, pushing some towards cautious pragmatism, and away from extreme partisan positions.

The cautious camp includes David Cameron, the prime minister. Allies stress that he is "not looking for a fight" with public-sector unions. They point to his choice of a former Labour cabinet minister, Lord Hutton, to advise the government on pensions reform. History makes Mr Miliband cautious, too. He called the June 30th strikes a "mistake", and declared his party to be on the side of parents trying to send their children to school: an act of defiance towards the unions that provide most Labour Party funds. For Mr Miliband, says an aide, the 1980s are shorthand for a Conservative government and a trade-union movement both "hellbent on confrontation", with the public paying the price.

Yet the cautious do not have it all their own way. There is a second camp that is happy to use the 1980s as a purely partisan call to arms. Andy Burnham, Labour's education spokesman, told the House of Commons before the June 30th strikes that parents would blame the government if the dispute with teachers returned the country "to the 1980s". Dave Prentis, leader of the largest public-sector union, Unison, accuses the government of "cutting further now than Thatcher dared". Mark Serwotka, boss of the Public and Commercial Services Union, which represents civil servants, recently praised Mr Scargill's "bravery".

On the right, Boris Johnson, the Conservative mayor of London (and a man whose ambitions may one day include a stab at his party's leadership), called the government "lily-livered" for declining to consider a new law making it harder to call a strike. The Tory right cheered, knowing which alternative, non-lily-livered model of prime minister he had in mind.

A slew of conflicting polls suggest that voters are unsure what to think, backing the right of teachers to strike for pensions, but also supporting tougher strike laws. As spending cuts bite, and anger swells, pressures can only grow on the cautious camp.

They were there

But it has one great strength. Many who remember the 1980s best have no desire to revisit that decade. Eric Pickles, now the Tory communities and local government secretary, was a politician in the northern city of Bradford in the 1980s. He is a devoted Thatcherite, with a portrait of his heroine in his office. But, he says, some communities "sort of disappeared from the map" after the miners' strike. Some Tory activists are gung-ho about the miners' strike, but he is not, saying: "I find the most visceral were children then, or not even born." Lord Kinnock, the Labour leader from 1983 to 1992, calls the Thatcher government "loathsome" for appearing not to "give a damn about the consequences" of wrenching economic

change. But he blames Mr Scargill for refusing deals that could have saved some profitable mines. "Thatcher and Scargill deserved each other, nobody else did," he says.

The 1980s, in some parts of Britain, did feel like a civil war. It was one that the Thatcher government had to win, and victory ended decades of national decline. But after a civil war, nobody decent should celebrate. The British people sense this instinctively. The government is right to be cautious: the current mood of public calm is a small miracle. Some unions seem bent on confrontation, alas. They should beware, and leave the 1980s, an unhappy decade, to its ghosts.

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Conflict mediation

Privatising peace

Governments are increasingly handing over the early stages of conflict resolution to independent organisations


Simon Pemberton

A SMART golf course hotel in southern Norway is not where you would expect to bump in to a couple of Afghan Taliban. But at the Oslo Forum Network of Mediators no one batted an eyelid. For once, an earnest discussion on "Talking to the Taliban"-scheduled on June 23rd, the day after Barack Obama announced he would be pulling 33,000 troops out of Afghanistan by next year-actually meant talking to real-life Taliban.

The forum, now in its ninth year, is hosted by the Norwegian Ministry of Foreign Affairs and the Geneva-based Centre for Humanitarian Dialogue (HD). It brings together high-powered professional peace negotiators to swap ideas about current conflicts and learn from past successes and failures. More fundamentally, the existence of the forum marks a shift in the way diplomats and others go about trying to solve conflicts that shatter lives and communities in different parts of the world.

The United Nations, still widely seen as the go-to organisation for peacemaking, is hobbled in what it can do by competing political agendas, while America's appetite for elbow-twisting diplomacy has waned. Smaller countries that

have specialised in mediation, such as the Scandinavians and Switzerland, have become more risk-averse about engaging with armed groups. The result is that certain types of diplomacy are becoming privatised. Non-governmental organisations (NGOs), some with roots in aid-giving and disaster relief are playing an ever greater role in conflict resolution.

In what has become a crowded field, the biggest players are: the Crisis Management Initiative (CMI) based in Helsinki and founded in 2000 by Martti Ahtisaari, a former president of Finland; the Carter Centre's Conflict Resolution Programme, which helped win Jimmy Carter the Nobel peace prize in 2002; the Congress-funded but independent United States Institute of Peace (USIP); and HD, which was established in 1999 by Martin Griffiths, a British diplomat and former UN assistant secretary-general.

HD started out with the idea of promoting innovation in humanitarian interventions, but quickly decided to concentrate on mediation and conflict resolution. Its first engagement was an attempt to mediate between the government of Indonesia and Free Aceh, a movement fighting for the region's independence. After mapping out a peace process and presiding over many months of negotiations, HD succeeded in getting both parties to Geneva in 2002 to sign an agreement to stop hostilities. It lasted for less than six months. In the aftermath of the tsunami in December 2004, HD tried again, eventually handing over the process to CMI, which managed to secure a peace agreement eight months later.

The setback in Aceh-which HD's Asia director, Michael Vatikiotis, says was partly due to underestimating the pressures on the Indonesian government from the army-was followed by a fallow period for HD. Its only main projects were a long, frustrating attempt to pave the way for reform and dialogue in Myanmar and a more successful mission to initiate talks between the government of Nepal and the Maoist guerrillas that eventually led to an India-brokered peace agreement in 2006. Yet since 2005 HD has been busy working in many of the world's most violent places, including the Philippines, Somalia, the Central African Republic and Sudan. Asked by Kofi Annan to support his reconciliation efforts in Kenya after the disputed 2007 election, HD helped bring about the power-sharing agreement that put an end to the inter-tribal violence that had claimed over 1,000 lives.

Judging the achievements of HD and its peers is inherently difficult. In many cases they take on long-running arguments between parties that have not previously shown much interest in finding a solution to their differences. Successes are often fleeting. Ceasefire agreements can lead to more far-reaching dialogues or they can quickly break down. When there is success, as Mr Vatikiotis points out, clients prefer to take the credit themselves rather than acknowledge the role of the mediation. Secrecy is a condition of many of the engagements HD takes on.

Making things even more difficult, private conflict-resolution outfits-unlike states or even the UN-are "weak" rather than "strong" mediators. They cannot impose sanctions on warring parties, except by walking away (which is not easy if this means losing funding). And to get adversaries to implement what has been agreed, mediators have nothing other than the reward of peace itself as encouragement. Another concern is the effect of competition between mediation organisations. The scramble to be involved in Darfur meant duplication of effort and accusations of unseemly touting for business. The job of reconciling tribal factions in post-Qaddafi Libya is likely to be contested with equal vigour.

Yet private mediators also have substantial advantages over their state equivalents. They lack the political baggage that diplomats carry, which sometimes means warring parties are more willing to talk to them. They are not bogged down by official caution and bureaucracy, so they can move fast and be creative. Above all, they can take bigger risks over whom they will talk to and in what circumstances. Often state officials are not allowed to have contact with armed groups or terrorists, either for legal reasons or because of fears that this would confer legitimacy (American and European diplomats do not talk officially to Hamas, for example). HD started out working mainly on so-called "Track One" mediation involving diplomacy at government level. But Mr Vatikiotis now thinks that "Track Two" initiatives, which work through other channels when official ones are blocked, can smooth the way to more formal peace talks.

The Norwegian government is HD's biggest donor, providing nearly half its annual funding of around $15m. Norway had a torrid time trying to mediate between the Tamil Tigers and the Sri Lankan government. It ended up being criticised for clinging too long to a process that had become discredited by the Tigers' lack of serious negotiating intent.

"If you are not prepared to take risks, you should stay out," Jonas Gahr Store, Norway's foreign minister, says of the conflict-resolution business. But he argues that reputational risks can be reduced by working with organisations like HD, which he regards as a "highly skilled strategic partner". About a third of the $100m a year his department spends on

conflict resolution goes to NGOs. He dismisses the idea that mediators have become too numerous or that the money may not be well spent. "There is enough conflict and suffering for all," he says. "We have a system that measures progress and which holds our interlocutors to account."

One nagging worry, however, was shared by many of those at the Oslo Forum. Last year the American Supreme Court upheld a contentious section of the Patriot Act that outlaws giving "material support" to designated terrorist groups, including "expert advice or assistance". Since the law applies outside America, this means that contacts with proscribed organisations could leave mediators open to prosecution. More than 40 NGO bigwigs, who fear that the court's decision is chilling the efforts of peacemakers, have already petitioned Hillary Clinton, America's secretary of state. Mr Vatikiotis is more sanguine, arguing that it is not really in America's interest to come down hard on mediators. "It's just another risk that has to be managed."

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Violent extremists

Of skinheads and jihadists

Their hatred may be different, but it has similar roots



IT IS rare for an ex-neo-Nazi skinhead to sit down with a couple of former Islamist extremists and someone who was once a member of a violent street gang. It is rarer still for them to be joined by a survivor of the terrorist attacks on London in 2005. But on June 27th they all shared a stage in Dublin at a conference to discuss violent extremism with around 60 "formers" from 19 countries and a swathe of survivors.

The meeting was arranged by Google Ideas, the internet giant's new think-tank, or "think/do tank" as it likes to describe itself. Google, says Eric Schmidt, its chairman, is trying to come up with ideas to make the world a better place-such as the Summit Against Violent Extremism (SAVE) in Dublin.

Combating the rise of violent extremism has preoccupied governments for a decade. "They hate our freedoms," said George Bush by way of explanation for the attacks of September 11th 2001. In reality the motivations that drive people into extremist groups are far more complex.

The "formers" had much in common. Both Yasmin Mulbocus, once a member of al-Muhajiroun, an Islamist outfit in Britain, and Sammy Rangel, who used to be in the Maniac Latin Disciples, a Chicago gang, spoke of abuse they suffered as children. Ms Mulbocus, whose father was Pushtun and whose mother was from Guyana, and Ben Owens, another former gang member whose ancestry is a blend of Cherokee Native American and African-American, both struggled with defining their identities. Others described absent fathers, households plagued by alcoholism, lonely teenage years and their frustrated desire to belong.

For some, most notably those who had been involved in Islamist groups, ideology played an important and complex role. Abu Muntasir, the head of an Islamic charity in Britain, argues that many jihadists are responding to real injustices in the world. Maajid Nawaz was once a senior member of Hizb ut-Tahrir, an international Islamist movement, and spent almost four years in an Egyptian prison. He went on to found the Quilliam Foundation, a counter-extremism think-tank that continues his fight-with peaceful methods.

Such transformations take time. Many at the conference likened it to the tortuous process of conquering addiction. Some, such as Susan Cruz, a former gang member, now work in the world they have left behind, trying to yank others out of it. Others are sometimes threatened by the groups they belonged to. T.J. Leyden, once a white supremacist, convinced 91 people to become skinheads when he was one. So far, he has persuaded 89 to leave the movement. He is determined to match his record-then beat it tenfold. He has been branded a traitor by his former comrades.

Predictably, Jared Cohen, who heads Google Ideas, is keen to promote the role of technology in this battle. Suggestions from those at the conference included an online encyclopedia to debunk the narratives of extremist groups; a WikiKoran to offer different interpretations of scripture and encourage debate; and a video game set in the gang world where the winning strategy would require getting characters to abandon their thuggish ways.

This is the first time Google has organised such a conference. Inviting former skinheads, jihadists and gang members to explore how to prevent others going down those paths is certainly a good idea. But to solve the problem of violent extremism, clever technology and algorithms are only a sideshow.

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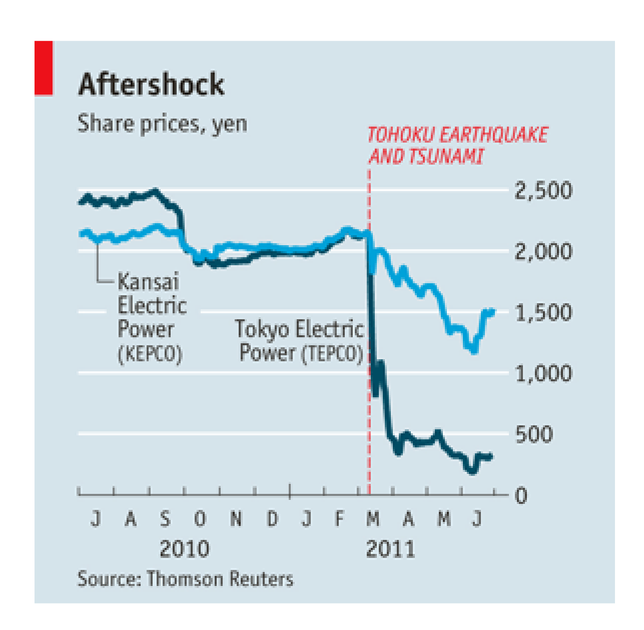
Power in Japan

The troubles of TEPCO

The fallout from the Fukushima nuclear disaster is spreading throughout Japan's energy industry



"THROW yourself into a nuclear reactor and die!" one investor shouted. Japanese shareholders are usually more polite, but this was the annual meeting of TEPCO, the Japanese power company that owns the Fukushima nuclear plant. Since an earthquake in March caused a meltdown, TEPCO faces unlimited demands for compensation. Its shares have fallen by nearly 90% (see chart). A man at the meeting on June 28th suggested that the board take responsibility by committing *seppuku*, or ritual suicide.



Not everything went wrong for TEPCO. A shareholder motion to close all its nuclear plants was defeated. But apart from that, things look grim. TEPCO faces claims for compensation that, in a worst-case scenario, could exceed its assets of Â¥15 trillion ($186 billion). No one knows how much it will have to pay. (Oddly, it is the education ministry's job to issue guidelines for nuclear compensation.) Estimates of TEPCO's liabilities range between Â¥4 trillion and Â¥25 trillion. The firm also owes Â¥7.8 trillion to bondholders and bank creditors. If TEPCO goes bust, these people take precedence over those affected by the disaster, a fact that is politically radioactive.

Four months ago, TEPCO was the cornerstone of corporate Japan. Some 750,000 people, many of them elderly, still own its shares. The company, which accounts for a hefty 8% of Japan's total domestic debt market, had its bond rating cut to junk by Moody's on June 20th, following a similar downgrade by Standard & Poor's in May.

Only the government can save TEPCO from bankruptcy. A bill submitted on June 14th to the Diet, Japan's parliament, aims to enable the firm to pay compensation without going under. It would establish a mechanism for the government to channel truckloads of money to TEPCO, which the firm would then pass on to the victims. This would be repaid from

TEPCO's earnings, with help from other nuclear operators. The new entity could purchase TEPCO assets. One insider thinks this will lead to partial nationalisation. Another reckons that the new entity might buy fresh bonds that TEPCO could issue to meet its obligations.

The bill has not been seriously debated in the Diet, in part because of political paralysis. But officials believe it will be ratified before the end of the summer because the consequences of shelving it are unthinkable. Compensation must be paid, the recovery work at Fukushima must go on and the lights in Tokyo must stay on.

However, the bill is only a stop-gap. It may soothe TEPCO's creditors. It may even reassure the public that payouts won't lead to higher electricity bills. But critics grumble that the plan protects shareholders at the expense of taxpayers.

The long-term solutions being considered include bankruptcy, temporary nationalisation for the purpose of selling off assets, or capping TEPCO's liability and making it, in addition to an energy provider, a vehicle for compensation payments. TEPCO favours a liability cap. Only this, the thinking goes, will lure back investors and let TEPCO become a normal company again. But this may scupper any chance of energy-sector liberalisation, since the company would need fistfuls of profits in order to make its payouts. "When I meet with TEPCO officials, I don't see any change in mindset; it's as if nothing has changed," sighs a nuclear-energy official.

Bankruptcy or temporary nationalisation would be bolder. Either could herald energy deregulation, since a regional monopoly would be broken up and sold. The government could then separate energy generation and transmission, which the prime minister, Naoto Kan, supports but few other politicians do. Outsiders, such as Softbank, a mobile-phone operator, are keen to enter the energy business. But big business, which ought to favour competition to lower energy prices, is against deregulation. This may be because so many big firms act as suppliers to the utilities, which pay high prices to reward loyalty.

Across Japan, regional power companies are caught in Fukushima's fallout. Most prefectural governors are refusing to restart nuclear plants that shut for regular maintenance. Power shortages loom. Other shareholder meetings have been almost as stormy as TEPCO's. The biggest shareholder of KEPCO, the utility in the Kansai region, is the city of Osaka, which has a 9% stake. Its mayor turned up at the annual general meeting and urged the firm to diversify away from nuclear energy. Such demands are popular. Three-quarters of Japanese want to reduce or eliminate the country's reliance on nuclear power-many more than before the accident.

The utilities now face more scrutiny and tighter energy supplies. They are also unlikely to win permission to raise rates. (As regional monopolies, their prices are set and their profit margins are guaranteed by regulators.) Their solid credit ratings could liquefy. KEPCO and another utility recently cancelled new corporate-bond offerings because yields soared.

Firms that had cross-shareholdings in the utilities have also taken a hit. Even banks are affected: cabinet members have suggested they share the pain by forgiving a portion of TEPCO's pre-quake loans. Naturally, this whacked their share prices.

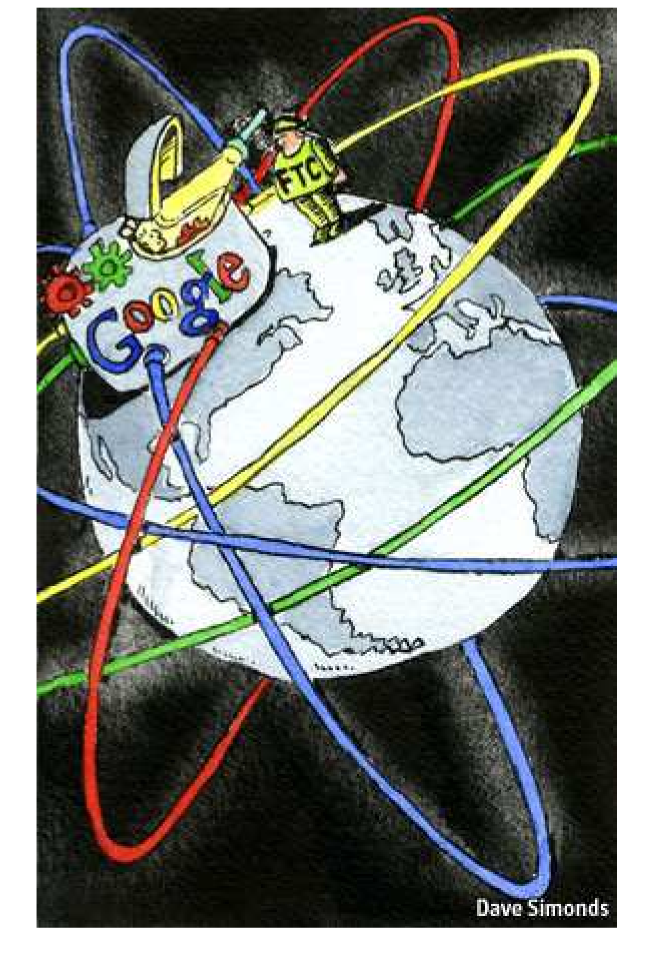
The Fukushima disaster presents an opportunity for radical reform. But in a crisis people often grow conservative. Since the government holds the purse-strings, it can more or less dictate terms to TEPCO. The fear is that it will bankroll a return to business as usual.

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Regulating the internet

Google's enemies

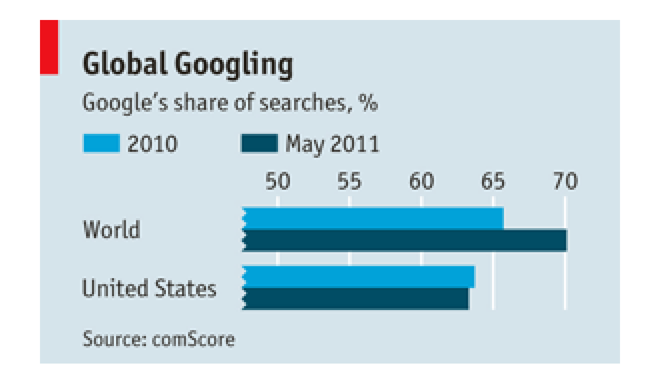
The search giant's antitrust headache gets bigger



SINCE the start of this year, Google's share price has fallen steadily as investors have begun to fret about its longer-term prospects. Now they have another reason to worry. On June 24th the company revealed that America's Federal Trade Commission (FTC) had opened a broad investigation into its online-search and online-advertising businesses to see if it has abused its dominant position. Some pundits predict that the trustbusters' tussle with Google could turn as bloody as their battle with Microsoft in the 1990s.

The regulators' move comes at an awkward time for Google, which faces a growing threat from Facebook, the world's biggest social network. Facebook aims to supplant Google as the main conduit via which people access the web. On June 28th Google hit back, unveiling Google+, a social-network platform to rival Facebook.

Google's new offering, which is still in trial form, boasts some handy features. It makes it easy to set up separate groups, thus sparing your boss from seeing your semi-clothed and inebriated party snaps. It also lets up to ten people hold a video chat together. But this will probably not be enough to get people to abandon Facebook, which benefits from a powerful network effect: people join it because most of their friends already have.



Still, Google's determination to keep innovating has served it well in its core business of search, where it commands nearly two-thirds of the market in America and an even higher share elsewhere (see chart). It is this dominance that has attracted regulators' attention in America and abroad. Last November the European Commission announced a similarly sweeping review of Google's operations.

Another reason that Google is attracting more attention is that it keeps expanding into new areas. In Silicon Valley, one of the first questions a potential investor asks a start-up is: "What would you do if Google moved into your space?" Some of Google's new ventures have been controversial. For instance, regulators recently gave the company a green light (with conditions attached) to acquire ITA Software, which provides online flight information. Several other travel companies opposed the deal, howling that it would limit competition. Google's critics say that because it has its fingers in so many pies, from online video to location-based services, it must surely be tempted to give some of its own businesses an artificial boost in its rankings.

Google acknowledges that it makes hundreds of tweaks a year to the algorithms that determine the search results it serves up. But it insists that its aim is to improve users' experience by, for example, blocking spam and thwarting firms that try to game its system. It also likes to point out that its rivals, including Yahoo! and Microsoft's Bing search engine, are merely a click away. Rivals retort that only Google's name has become a verb, and that this reflects its vice-like grip on the market. (The other possibility is that Google's search engine is more popular because it is better.)

Google is not invincible. Bing has been slowly increasing its share of American searches and is working with Facebook on integrating social-networking data into its results in a bid to improve them. (This is another reason why Google wants its own source of social data.) People are also being offered more and more digital information via other sources, including specialised search engines and software applications on smartphones.

When it comes to web advertising, it is equally hard to see how any charges of monopolistic abuse against Google can be made to stick. There is no shortage of sites and ad networks unconnected to Google that are ready to take advertisers' dollars. And the cost of switching from Google to a rival is very low.

None of this guarantees that Google will escape unscathed from the investigation. Eric Goldman of Santa Clara University reckons that the FTC's watchdogs could raise questions about Google's habit of occasionally bidding in its own ad auctions to promote "house" ads for its businesses. Google insists that it has always been transparent about this practice.

Like watchdogs for chocolate

Yet even if Google has to make some concessions in the end, talk of its predicament being the same as Microsoft's in the 1990s is plainly ridiculous. By embedding only its own web browser into its Windows operating system, Microsoft deliberately restricted users' choice in the hope they would become addicted to its products.

Google is also addictive, but in the way that chocolate is, not in the way that cigarettes are. People love Googling, but they can easily give it up. Google's lawyers must be hoping that the FTC understands this crucial distinction.

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Technology IPOs

Betting the farm

Zynga may be a good business, but the tech bubble is expanding

PLAYERS of FarmVille, an online game, raise virtual chickens on an imaginary farm. Yet they are happy to swap real money for virtual money to buy virtual farm tools. And investors are likely to pay more than chicken feed for shares in Zynga, the firm that makes FarmVille and other online games.

Zynga is expected to file soon for an initial public offering (IPO). Analysts predict that the firm will be valued at between $15 billion and $20 billion. That is about as much as the world's two biggest video-game makers (Electronic Arts and Activision Blizzard) combined.

More than 271m people play Zynga's games at least once a month, and the firm said in March that it expects to make a profit this year of $630m on revenues of $1.8 billion. So its business is more real than those of some other online firms. But it is not something a sober investor would bet the farm on. Users may tire of virtual vegetables and online Mafia Wars (another popular Zynga game). Rivals are straining to grab Zynga's players. Electronic Arts, Playdom and Wooga have only about 30m monthly active users each, but they may catch up.

What is more, Zynga depends on two other firms, Amazon and Facebook, like the cabbage crop depends on the rain. Although it operates data centres of its own, it outsources much of its computing to Amazon Web Services, the cloud-computing arm of the online shopping giant. More importantly, most users play Zynga's games on Facebook. In September the social network pushed Zynga into using its virtual currency, called "Facebook Credits", so Facebook gets 30% of what Zynga's users spend.

With Zynga gearing up for its IPO, the question now is which other tech start-up is next in line to go public. With Groupon, an online coupon service, also about to float, the supply of hot stocks is running low.

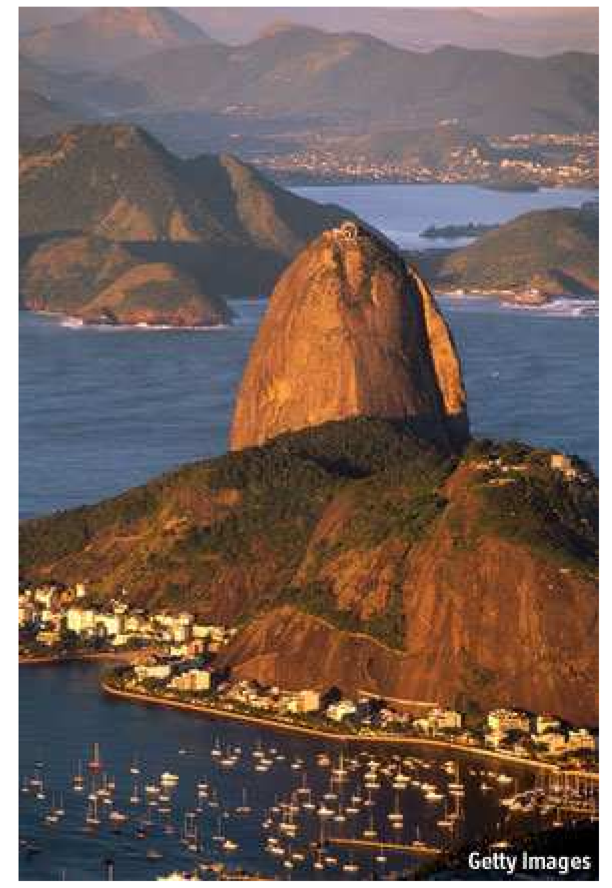
But Silicon Valley venture capitalists are busy replenishing the pool. On June 24th it emerged that foursquare, a location-based service, had raised $50m, a deal that values it at $600m. (Foursquare lets users electronically "check in" at bars and restaurants so their friends can join them-and the people who owe them money can avoid them.) A few days later investors pumped $100m into Square, a mobile-payments start-up, valuing it at $1 billion. Neither firm has ever turned a profit.

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Supermarkets in Brazil

A French food fight

Two French firms are fighting for dominance of the Brazilian retail market



A tasty target

CARREFOUR, a giant French retailer, has been through a rough patch. It has tried for several years to revive its hypermarket business in France, without much success. Blue Capital, its unhappy main shareholder, has relentlessly pushed the sale of assets to prop up Carrefour's sagging share price. Before the retailer's recent annual general meeting, rumours circulated that Lars Olofsson, its chief executive, was on his way out.

After a tumultuous meeting Mr Olofsson kept his job. A week later, on June 28th, Carrefour said that it had received an offer to merge its Brazilian operations with those of Companhia Brasileira de Distribuicao (CBD), the owner of Pao de Acucar ("sugar loaf"), a fancy Brazilian chain.

Under the proposal, CBD and Carrefour's Brazilian arm will merge into Gama, a holding company capitalised by the (state-owned) Brazilian National Development Bank (BNDES). This would receive an investment of euro2 billion ($2.9 billion) and a loan of euro500m from BNDES. Carrefour would have a 50% stake in the new entity.

The deal has obvious attractions. The Brazilian market is fragmented. CBD is the biggest retailer; Carrefour is number two. The new company would have combined sales of perhaps 69 billion reais ($43 billion). It would have a 21% share of the world's third-largest grocery market after America and China. Brazil's economy is hot: it grew by 7.5% last year. Its population is young. Unlike certain other emerging markets, it is a stable democracy.

Alas for Carrefour, there is a snag. The other big owner of CBD is Casino, another French firm and Carrefour's archrival. Casino owns 37% of the company and has the option to take a majority of voting rights next year under a previous agreement. Since it emerged last month that Abilio Diniz, the chairman of CBD, had contacted Carrefour to discuss a possible tie-up, Casino and Mr Diniz have been at daggers drawn. Casino claims that the negotiations between Mr Diniz and Carrefour were illegal. Neither has responded.

Casino feels betrayed. It was about to take control of the biggest retailer in one of the world's fizziest markets. Instead, it may end up as a marginal shareholder. Gama's bylaws stipulate that no one may have more than 15% of the voting rights in the proposed new company.

Casino is likely to take its grievances before Brazil's unpredictable courts. That could mean a long and costly battle. And even if Casino wins, it will have poisoned the relationship with its co-proprietors and distracted everyone from the task of selling cubed pineapples and imported cheese to affluent Brazilians.

Another possibility is that Walmart, the third-biggest retailer in Brazil, might bid for Carrefour's Brazilian assets. That would weaken CBD, says Christopher Hogbin at Bernstein Research. Walmart is investing heavily in Brazil, opening more than 100 shops there last year.

The deal is likely to be scrutinised closely by Cade, Brazil's antitrust authority, which is becoming stricter about the creation of giants with pricing power. Carrefour and Gama say they are preparing proposals for Cade. These may include divesting themselves of some stores in Sao Paulo, where the two chains are dominant.

But the deal has one great advantage: it is supported by the government via the BNDES. Brazilian policymakers are worried about Brazil becoming mainly an exporter of commodities. So they are keen to create national champions in other sectors, even if they are partly controlled by foreigners. Carrefour could bring valuable skills to Brazil, and perhaps help the new venture gain access to markets in other countries. When you use your loaf, the rewards can be sweet.

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Profits in India

From sleaze to sneeze

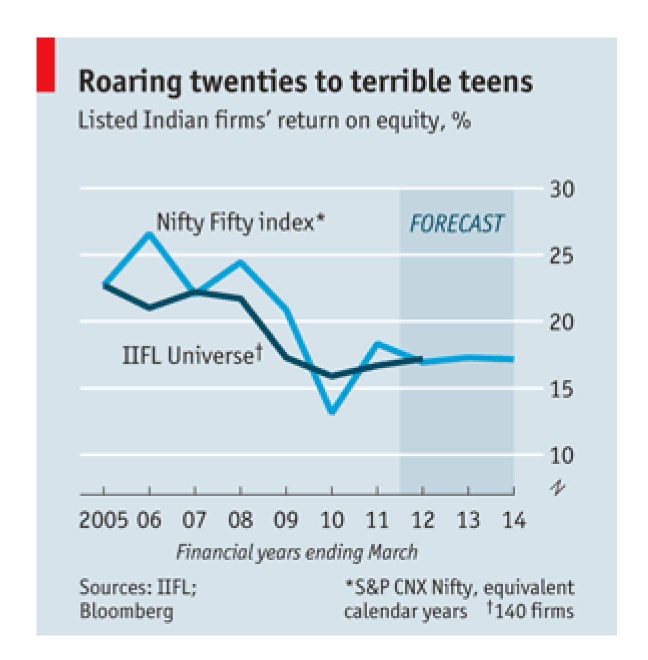
India Inc catches a cold



Plenty of ditches still to dig, miles of cables still to lay

AMONG investors, confidence in India has taken a knock. The stockmarket is down by a tenth in dollar terms this year. That reflects higher interest rates, but also a sense that the government has lost the plot. It has, say its critics, failed to control corruption and public borrowing, fallen behind on infrastructure and proven unable to make decisions. Vedanta, a London-listed resources firm, has been waiting for almost a year for ministerial approval to buy control of the Indian unit of Cairn Energy, which is also London-listed.

On June 28th, during a trip to America, India's finance minister insisted that things were on track. Many business folk are sceptical. "Reforms will happen-after the whole system collapses," predicts a corporate oligarch. He is just talking about India's bankrupt electricity-distribution companies, which are a tiresome bottleneck. Overall, he remains an optimist on India, arguing that a "golden century" awaits the country.



But for many firms the usual jitters are now combined with a less familiar problem: falling profitability. Listed firms' return on equity, which was 21-23% in the five years to March 2008, was only 17% last fiscal year, estimates IIFL, a broker, using a sample of 140 companies accounting for two-thirds of the stockmarket by value. Data for the Nifty Fifty index of big firms paint a similar picture (see chart). Few analysts expect a quick recovery.

Part of the fall reflects transient factors. Acquisitions abroad have hit some companies' returns, for example. But deeper trends are at play, too. Labour costs have risen, particularly at some state-controlled firms: Steel Authority of India's staff bill rose by a whopping 41% last fiscal year. Indiscipline and slower-than-expected growth have wilted profits in sectors such as cement, construction, property and telecommunications.

Some industries, such as consumer goods, continue to prosper. But to motor along, India's economy needs not only shampoo but also new roads, shops, houses, factories and power plants. Lower returns and faltering reforms may make firms coy about sinking money into the ground. In the quarter to March, growth in gross fixed capital investment slumped, having been healthy for years (other than during the 2009 financial crisis).

The chairman of a manufacturing and retailing firm says he has recently tempered his expansion plans, just to play it safe. "I suppose everyone has done it," he remarks, while acknowledging that this collective wobble risks becoming a self-fulfilling prophecy.

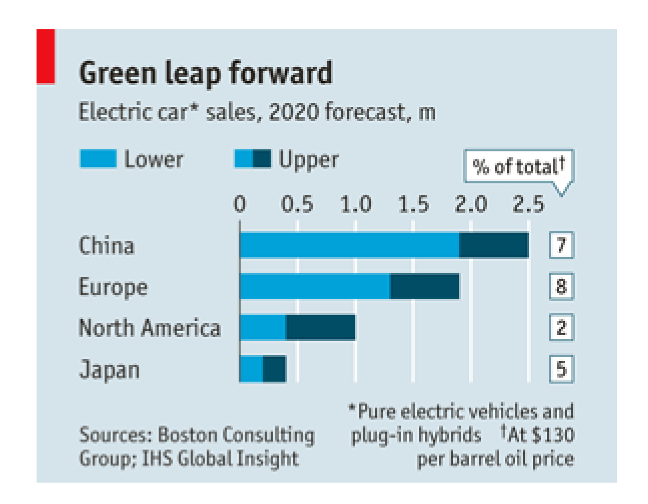
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Electric cars

Highly charged

The future of electric cars is in China

CHINA has lots of people, not much oil and rulers who love big projects. Small wonder that makers of electric cars see it as the market of the future. The Chinese government wants to have 500,000 electric cars, lorries and buses on Chinese roads by 2015 and 5m by 2020. It is providing customers with subsidies worth up to 60,000 yuan ($9,250) and other incentives, too. If it carries on doing so, electric cars and plug-in hybrids could account for 7% of new-car sales in China by 2020, says a forthcoming report by the Boston Consulting Group. That would make China the biggest market for electric vehicles, by volume, in the world.



Foreign firms are salivating. But they are also nervous. "The price for market access has gone up," says Michael Dunne, the president of Dunne & Co, a car consultancy in Hong Kong. Foreign producers are being told about new "draft" rules which mean they must share more intellectual property and branding rights with their Chinese joint-venture partners, he says.

On June 27th Carlos Ghosn, the boss of Nissan-which with its partner Renault is taking the biggest electric-car bet by launching a range of plug-in models-said he would wait to learn more about the new policy before deciding how many electric cars Nissan will make in China (including the new Nissan Leaf). "We will adapt our strategy to the rules," he added. At present there are plenty of unknowns, such as whether subsidies will benefit only Chinese brands.

The local champion is BYD, a battery-maker turned car producer in which Warren Buffett has a stake. BYD is struggling, however, to get its new e6 electric car to market. It was supposed to go on sale in America last year, but was not ready. It is now being tested by taxi fleets in Shenzhen, where BYD is based.

The Chinese government could juice up the market by insisting that more taxis and government vehicles switch to electric. But persuading Chinese consumers may be harder. Electric carmakers typically claim that their vehicles can travel a long way without recharging, but that range can fall by a third or more if you turn on the air-conditioning, accelerate hard or otherwise drive normally. BYD claims that the e6 has a range of 300km (186 miles), which is about twice that of Nissan's Leaf. Motoring hacks have yet to put that claim to a good road test.

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Schumpeter

Too much information

How to cope with data overload



Correction to this article

GOOGLE "information overload" and you are immediately overloaded with information: more than 7m hits in 0.05 seconds. Some of this information is interesting: for example, that the phrase "information overload" was popularised by Alvin Toffler in 1970. Some of it is mere noise: obscure companies promoting their services and even more obscure bloggers sounding off. The overall impression is at once overwhelming and confusing.

"Information overload" is one of the biggest irritations in modern life. There are e-mails to answer, virtual friends to pester, YouTube videos to watch and, back in the physical world, meetings to attend, papers to shuffle and spouses to appease. A survey by Reuters once found that two-thirds of managers believe that the data deluge has made their jobs less satisfying or hurt their personal relationships. One-third think that it has damaged their health. Another survey suggests that most managers think most of the information they receive is useless.

Commentators have coined a profusion of phrases to describe the anxiety and anomie caused by too much information: "data asphyxiation" (William van Winkle), "data smog" (David Shenk), "information fatigue syndrome" (David Lewis), "cognitive overload" (Eric Schmidt) and "time famine" (Leslie Perlow). Johann Hari, a British journalist, notes that there is a good reason why "wired" means both "connected to the internet" and "high, frantic, unable to concentrate".

These worries are exaggerated. Stick-in-the-muds have always complained about new technologies: the Victorians fussed that the telegraph meant that "the businessman of the present day must be continually on the jump." And businesspeople have always had to deal with constant pressure and interruptions-hence the word "business". In his classic study of managerial work in 1973 Henry Mintzberg compared managers to jugglers: they keep 50 balls in the air and periodically check on each one before sending it aloft once more.

Yet clearly there is a problem. It is not merely the dizzying increase in the volume of information (the amount of data being stored doubles every 18 months). It is also the combination of omnipresence and fragmentation. Many professionals are welded to their smartphones. They are also constantly bombarded with unrelated bits and pieces-a poke from a friend one moment, the latest Greek financial tragedy the next.

The data fog is thickening at a time when companies are trying to squeeze ever more out of their workers. A survey in America by Spherion Staffing discovered that 53% of workers had been compelled to take on extra tasks since the recession started. This dismal trend may well continue-many companies remain reluctant to hire new people even as business picks up. So there will be little respite from the dense data smog, which some researchers fear may be poisonous.

They raise three big worries. First, information overload can make people feel anxious and powerless: scientists have discovered that multitaskers produce more stress hormones. Second, overload can reduce creativity. Teresa Amabile of

Harvard Business School has spent more than a decade studying the work habits of 238 people, collecting a total of 12,000 diary entries between them. She finds that focus and creativity are connected. People are more likely to be creative if they are allowed to focus on something for some time without interruptions. If constantly interrupted or forced to attend meetings, they are less likely to be creative. Third, overload can also make workers less productive. David Meyer, of the University of Michigan, has shown that people who complete certain tasks in parallel take much longer and make many more errors than people who complete the same tasks in sequence.

Curbing the cacophony

What can be done about information overload? One answer is technological: rely on the people who created the fog to invent filters that will clean it up. Xerox promises to restore "information sanity" by developing better filtering and managing devices. Google is trying to improve its online searches by taking into account more personal information. (Some people fret that this will breach their privacy, but it will probably deliver quicker, more accurate searches.) A popular computer program called "Freedom" disconnects you from the web at preset times.

A second answer involves willpower. Ration your intake. Turn off your mobile phone and internet from time to time.

But such ruses are not enough. Smarter filters cannot stop people from obsessively checking their BlackBerrys. Some do so because it makes them feel important; others because they may be addicted to the "dopamine squirt" they get from receiving messages, as Edward Hallowell and John Ratey, two academics, have argued. And self-discipline can be counter-productive if your company doesn't embrace it. Some bosses get shirty if their underlings are unreachable even for a few minutes.

Most companies are better at giving employees access to the information superhighway than at teaching them how to drive. This is starting to change. Management consultants have spotted an opportunity. Derek Dean and Caroline Webb of McKinsey urge businesses to embrace three principles to deal with data overload: find time to focus, filter out noise and forget about work when you can. Business leaders are chipping in. David Novak of Yum! Brands urges people to ask themselves whether what they are doing is constructive or a mere "activity". John Doerr, a venture capitalist, urges people to focus on a narrow range of objectives and filter out everything else. Cristobal Conde of SunGard, an IT firm, preserves "thinking time" in his schedule when he cannot be disturbed. This might sound like common sense. But common sense is rare amid the cacophony of corporate life.

Economist.com/blogs/schumpeter

Correction: This article was amended on July 1st to correct the figures related to Teresa Amabile's study.

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Chinese investment in Europe

Streaks of red

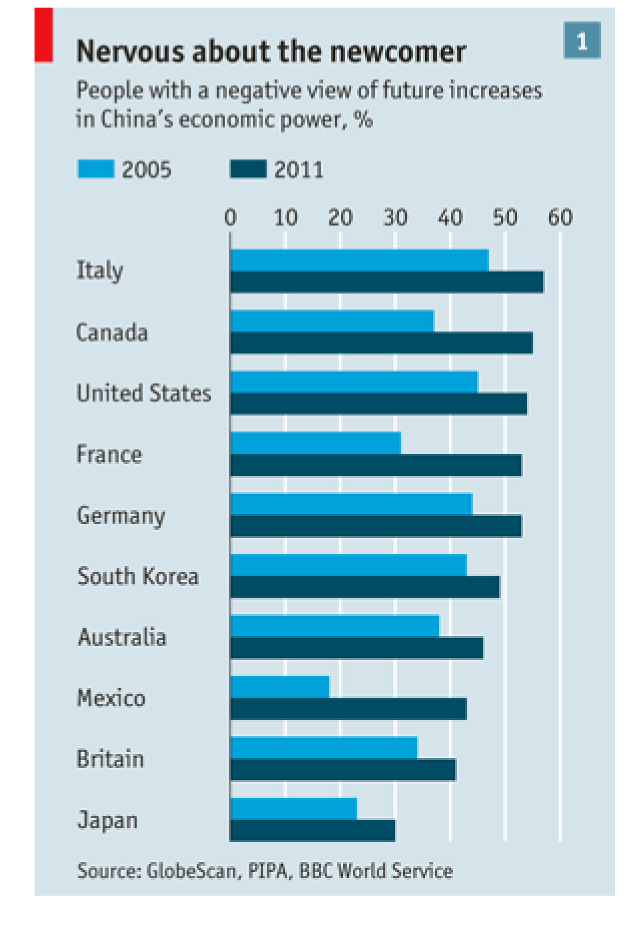
Capital and companies from China are sidling into Europe



A RIDE in a London taxi from Canary Wharf, a financial district, to the Bank of England sounds like an inimitably British experience. It is also a Chinese one.

London's black cabs are made by Manganese Bronze, which is part-owned by Geely, a Shanghai-based carmaker that also owns Volvo, a Swedish company. China Investment Corporation (CIC), a sovereign-wealth fund, has the third-largest stake in Songbird Estates, which controls Canary Wharf Group, the property firm behind the towers that dominate the city's eastern skyline. CIC may soon become an investor in the Citigroup building, another landmark skyscraper, which is for sale.

The Bank of England is not yet Chinese-owned but it is increasingly encircled by Chinese banks, which have bought or leased about 300,000 square feet (28,000 square metres) of office space since the financial crisis. Bank of China, which has been in London since 1929, has recently moved into plush new headquarters that overlook the central bank. Down the road, in King William Street, the builders are at work inside the future home of ICBC, another state-owned giant.



Such visible signs of Chinese encroachment will feed the worries of many Europeans. A poll conducted for the BBC World Service in March found rising concern about the eastward shift in economic power: a majority of Germans, Italians and French people view China's rise negatively (see chart 1). Americans and Canadians feel similarly. These proportions have gone up since a similar survey in 2005.

Europe's political elites have fewer qualms. A buyers' strike in sovereign-debt markets has left several struggling euro-zone countries wondering whether China might be the answer to their prayers. On a red-carpeted tour of European capitals this week, Wen Jiabao, China's prime minister, said that the country would continue to purchase euro-denominated government bonds. Delegations have shuttled back and forth between Beijing and Athens, Lisbon and Madrid to pledge eternal friendship and see whether the Chinese might be tempted to put some money their way.

White knights wanted

It is not just governments that are desperate for Chinese capital. Saab, a struggling Swedish carmaker, is trying to sell stakes to two Chinese firms to secure its future. Victor Meijers, a Dutchman who is the only foreign global partner in DeHeng Law Offices, one of China's big law firms, says that he gets several inquiries a month from struggling European firms looking for a Chinese white knight.

In truth, China is neither Europe's saviour nor its destroyer. But Europe is likely to feel the force of China's outward expansion earlier than America. Europe may be seen as a geopolitical irrelevance but the Chinese feel more welcome there than in America, where a Chinese oil firm was prevented from buying Unocal in 2005-an event that still colours perceptions. European firms arguably have a greater need for cash than American ones. And China's huge holdings of Treasuries give it an incentive to diversify into other markets.

In analysing China's economic forays into Europe, it helps to divide them into three categories (even if some of these distinctions are fuzzier in China than elsewhere). First, there are financial investments by the state, through bodies such as CIC and the State Administration of Foreign Exchange (SAFE), which looks after the country's vast foreign reserves. Second, there is private investment by wealthy individuals and, gradually, private-equity firms. Third, there is the advance of corporate China.

Start with the official flows. The data on what China invests in are sketchy but two things at least are clear: China has a stated desire to diversify away from dollar assets and the euro zone is the natural alternative. Simon Derrick, a currency analyst at BNY Mellon, an American bank, reckons that around a quarter of China's $3 trillion-plus of reserves are now in euro-denominated assets. Given the recent pace of accumulation-around $200 billion a quarter-that would suggest that $150 billion-200 billion of Chinese reserves have found their way to the euro zone since last summer. (Another few billion will have gone into sterling-denominated assets.)

Inflows on that scale would help to explain why the euro has continued to do better than many expected given the zone's sovereign-debt crisis. But they may also signal weakness to come. China's desire to slow the rate at which it builds reserves may slacken demand for euro-denominated assets. "That could mean radically different values for the euro," says Mr Derrick.

How much official Chinese money has found its way into peripheral euro-zone countries is a matter of guesswork. Stephen Jen of SLJ Macro Partners, a hedge fund, thinks that the Chinese may have been buying as much sovereign debt from struggling states as the European Central Bank (ECB) has. Their motives may be partly political: Mr Jen tartly observes that the Europeans have had nothing to say on the value of the yuan recently. But there is commercial logic, too: Spanish bonds, say, promise a nice return if you think the debt crisis will go no further.

There is a limit to the largesse. Exuberant Spanish announcements that the Chinese were about to pump money into the country's troubled savings banks were quickly slapped down. Hopes for a flood of Chinese capital into Greece have not yet materialised. The most prominent deal is a concession for COSCO Pacific, a state-owned shipping and ports giant, to run a terminal at the port of Piraeus and perhaps to build another. But far from being an opportunistic asset grab, it was arranged in 2007 at boom-time prices. In government-bond markets, China's support for wobblier states may well dwindle as 2013 gets nearer: then a new euro-zone sovereign-debt fund will be able to promote the claims of European governments on some countries above those of other creditors.



Although China's foreign-exchange reserves have largely gone into government and quasi-government debt, not all of them have. An analysis by *The Economist* of SAFE's holdings of FTSE 100 companies shows that it holds stakes worth around pound11.6 billion ($18.6 billion), sprinkled across two-thirds of the index. That translates to a little under 1% of the total value of the index, with energy, non-cyclical consumer stocks and basic materials to the fore (see chart 2). The Chinese are far less visible in other European markets, although they may be buying shares via third parties.

CIC transit gloria

Officials want to diversify further into real assets, including companies. CIC will reportedly be handed another $100 billion-200 billion of reserves to invest, for example, and some of that money will find its way to Europe. But the pace is

likely to be measured. Investments by the state can be politically sensitive. Many of CIC's bets are made via third-party managers. Where it does hold direct stakes, it has so far shown little inclination to interfere in the running of companies.

CIC's approach to property investment, for instance, has been to ally itself with experienced partners, through Canary Wharf Group, on long-term projects in the continent's most developed market. Via the group the Chinese also have an interest in an office development in London known as the Walkie-Talkie, which will not open until 2014 and will then need time to be let. Other sovereign-wealth funds might talk about a three-to-five-year play, says a property consultant, but "CIC wouldn't tell you [their timetable] and if they did, the answer would be that they'll hold it for ever."

For its partners CIC's attractions are obvious. As well as that big pot of money, it may bring in the Chinese occupiers of tomorrow. Property consultants already report rising numbers of inquiries from Chinese companies about office space. Insiders think CIC will eventually invest in accommodation for students, which may be filled by Chinese youngsters attending British universities.

If the flow of state capital to Europe is relatively advanced, the arrival of private mainland capital is a younger phenomenon. A recent survey by Bain & Company, a consultancy, and China Merchants Bank estimated that the investible wealth of Chinese individuals was 62 trillion yuan ($9.6 trillion) and that the number of people with investible assets worth more than 10m yuan would come close to 600,000 this year. They are increasingly ready to put some of their money abroad. According to Johnson Chng of Bain, rich Chinese have doubled the proportion of their portfolios invested abroad from 10% in 2009 to 20% this year.

Most of that goes to Hong Kong and Singapore, but some of it finds its way to Europe. Exchange controls exist but with so much liquidity sloshing around China at the moment, approval has become easier to get. Property, the asset of choice for Chinese investors, is again the focus and London is again the prime target in Europe, thanks to the weakness of sterling, a friendly tax regime and, often, plans to give children a British education.

The mainland Chinese are the fastest-growing group among foreign buyers of the dearest new property in central London, says James Thomas of Jones Lang LaSalle, a property consultancy. Roadshows to promote developments in London that would previously have stopped at Hong Kong and Singapore are now taking in the mainland, with Chinese banks and Western law firms joining in to offer prospective buyers tips on financing and tax.

Some are after commercial investments. Siqi Zhang, who runs the London arm of Celestial Globe, a small property consultancy aimed at mainland buyers, reports lots of interest in restaurants, hotels and bars that can throw off cash as part of an investment portfolio.

The flow of private capital is not just driven by individual wealth, however. Perhaps the most sensitive area of China's march is in the corporate arena, as Chinese firms and their financiers look abroad.



The importance of developed Western economies in this process should not be exaggerated. China has largely concentrated to date on Asian, African and Latin American investments that secure energy supplies and natural resources. Europe is a market where Chinese goods end up, not where they are put together. That said, the biggest Chinese deal announced in Europe this year has been the $2.2 billion purchase by China National Chemical Corporation of Elkem, a Norwegian manufacturer of polysilicon, which is a key component of solar panels. And Iceland, handily close to the oil-rich Arctic, is said to be surprisingly popular with visitors from China. But the data on China's outbound foreign direct investment show that Europe accounts for a mere 3.5% of the country's stock of such assets (see chart 3). Single deals can still make a big difference to the numbers.

Follow the money, if you can

Then again, the data do not tell the whole story. Money from the mainland and from Hong Kong is often intermingled. It does not cost a lot to open representative offices, which can then quickly be expanded. The numbers can also hide the extent of Chinese influence. Geely owns only 20% of Manganese Bronze, but it has the larger stake in a joint venture between the two that produces the taxi for international markets, it is the British firm's chief creditor and it is the linchpin of Manganese's strategic plans.

Walid Sarkis of Bain Capital, a private-equity firm, says that the tilting of economic power eastward is in any case naturally turning European firms into Chinese and Asian ones. Revenues and growth increasingly depend on these parts of the world. Managers of portfolio companies are thinking about moving headquarters east and listing in places like Hong Kong. "The process of rebasing is happening really fast," says Mr Sarkis.

The trend of growing outbound Chinese investment is unmistakable. Christian Milelli of the University of Paris West, who has helped compile a database of Chinese investment flows to Europe, says that deals have continued unabated despite the financial crisis, whereas those of Indian companies have contracted.

Behind the scenes, there is an awful lot of activity. Investment bankers routinely propose deals to Chinese firms (if only to scare other bidders into life); five years ago they would not have. "There is a huge amount of looking going on by Chinese companies," says Simon Wilde of Macquarie Capital's European power and utilities practice. It is not all about acquisitions: talks are apparently under way for Chinese firms to run big power and infrastructure projects in eastern Europe.

Much of this prospecting can be hard to spot since it is often conducted through individual fixers with knowledge of the West and good connections in China. Mr Wen's visit this week was in full view of the cameras but when deals are made, there is often little fanfare. "It's different to the Americans, where the chief executive will fly in to take a picture with the local bishop," says an Irish executive.

Investments happen for all sorts of reasons. Chinese banks want to offer services to Chinese companies as they expand internationally, for instance, and to European firms seeking a bank to work with in China. They also have lots to learn in a place like London about foreign-exchange trading and derivatives, especially as the yuan internationalises.

Expansion is frequently driven by the needs of the highly competitive Chinese market as much as the lure of the European one. "CIC and SAFE make financial investments based on returns on capital," says Z.Z. Qiu, who is chairman of Barclays Capital for greater China. "Corporate deals are more strategic and about synergies."

Technology and brands are the things that can make the biggest difference back home. Take Geely's deals in Europe. The Volvo purchase gives it a premium brand to compete with Western carmakers in China at the same time as it aims its own brands at the mass market. Its tie-up with Manganese Bronze has yielded few hard financial benefits, says John Russell, Manganese's boss, but lots of broader advantages such as access to engineering know-how and a brand with plenty of heritage.



It is a similar story with the purchase by Zoomlion, a Chinese manufacturer of construction equipment, of CIFA, an Italian rival, in 2008. "CIFA's core European markets dived during the recession," says Josh Lerner of Harvard Business School, who has written a case study on the deal. But CIFA has given Zoomlion access to better manufacturing technology and a premium brand to sell in China.

Germany has become a natural hunting-ground for industrial companies looking to move up the engineering value chain. Carmaking is again a focus. So is clean tech: Goldwind, a Chinese wind-turbine manufacturer, bought a German designer called Vensys in 2008 so it could develop bigger turbines for its domestic market. Not every European firm can assume it has technological allure, however. "I couldn't sell BT [a British telecoms firm] to China," says James Wang, a Chinese violinist-turned-dealmaker in London whose firm, Eli Capital, guided Geely's transactions in Europe. "It's too old-fashioned."

A word about our sponsors

Deals can help to open up the Chinese market. In June 2010 Fosun, a Chinese conglomerate with pretensions to become a global investment giant, bought 7.1% (later raised to 9.3%) of Club Med, a French leisure company hoping to serve Chinese holidaymakers. Club Med's first Chinese resort followed in December. In May Fosun also bought 9.5% of Folli Follie, a Greek retailer whose brands include Links of London and which thinks the deal will accelerate its expansion in China. CIFA's partnership with Zoomlion has given it access to the Chinese firm's distribution networks in Africa and the Middle East.

Transactions like these are opportunities not just for the companies involved but also for private equity. Fosun is acting, in effect, as a private-equity firm, and has set up investment ventures with both Carlyle and Prudential Financial. The Zoomlion-CIFA deal was 40% financed by a consortium of funds led by Hony Capital, a Chinese firm, and including Goldman Sachs. Mr Lerner reckons that within five to ten years Chinese private-equity firms will have joined the industry's global elite.

As well as providing financial firepower and a network for sourcing deals, private-equity firms can shroud the identity of publicity-shy investors. They are also well equipped to structure the fiddlier bits of deals and to guide the integration of

partners from different cultures. Getting that sort of thing right is undoubtedly hard for Chinese firms with limited experience of international deals-witness the bafflement of one firm at foreigners' habit of taking time off for holidays. Europeans, of course, have plenty of experience of cross-cultural deals. According to one Briton, the Chinese are no worse than the neighbours. "The French are way more difficult than the Chinese," he says.

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The IMF's new head

Wanted: a French revolution

The task facing Christine Lagarde in her new job



DESPITE all the talk of an "open, merit-based and transparent" contest, there was little reason to doubt that Christine Lagarde-France's finance minister, a former head of a big global law firm, and one-time member of her country's synchronised-swimming team-would get the top job at the IMF. The European Union, whose members control around a third of the votes on the fund's board, had united behind her as soon as she entered the fray.

Emerging markets made much of their desire to see a non-European take the job but conspicuously failed to rally around her only rival, Mexico's Agustin Carstens. All that remained was for America formally to throw its weight behind Ms Lagarde. It did so on June 28th, and soon after the fund's board confirmed that she would be its 11th managing director.

In most ways, her appointment is in keeping with past practice. Like all ten managing directors who have preceded her, Ms Lagarde is European and got the job largely because of support from the fund's rich-world shareholders. But there are some differences as well.

Ms Lagarde will be the first woman to run the IMF. Given that the position opened up because the fund's last head, Dominique Strauss-Kahn, was charged with attempted rape, this is no bad thing. More importantly, and unlike previous IMF bosses, Ms Lagarde takes the job when Europe itself is the fund's biggest client. Establishing and maintaining her independence from her former euro-area colleagues-whose support was crucial to her landing the role-will be a more important task for her than for her predecessors.

That will determine whether she succeeds in fulfilling the vision she outlined in her first official comments after being selected. In those remarks, Ms Lagarde stressed that she would seek to ensure that the IMF was "relevant, responsive, effective and legitimate". On the first two counts she should have a relatively smooth ride. The IMF's relevance may have been in doubt during the boom years but the crisis has seen it return decisively to centre stage. Contributions from its members have tripled its pre-crisis lending capacity, which now exceeds $750 billion. This increased firepower has allowed it to respond swiftly in 22 countries since the crisis. Having more money has also enabled it to offer financing on more flexible terms than before.

The linked goals of effectiveness and legitimacy are harder to achieve. Success here will depend on the degree to which the IMF under Ms Lagarde is able and willing to act independently of its biggest shareholders. To be an effective institution, the IMF needs to tell governments awkward truths about their economic policies. But countries are unlikely to heed its advice unless they believe in its impartiality.

Many of its poorer members regard it as an institution dominated by the views of richer countries. The manner of Ms Lagarde's selection will give them little reason to change their minds. Nor will a recent assessment by its own internal watchdog, which reckons that the IMF's economists feel "pressure to align their conclusions with IMF views". To change this perception of bias into one of even-handedness, Ms Lagarde will have to lead by example.

Her biggest challenge will be the euro-area debt crisis. Many emerging markets are troubled by the IMF's willingness to lend large amounts of money to struggling European states, arguing that it would have been less generous to non-euro-area countries in similar circumstances. The amount it has agreed to lend to Greece, for example, is about 24 times the amount Greece contributes to the IMF. In contrast, countries like Ukraine and Pakistan have received about seven times their contribution. The euro77 billion ($111 billion) the fund has agreed to lend Ireland, Greece and Portugal is twice the combined size of its 19 programmes with non-euro-area countries. Critics argue that this amounts to an unusual concentration of risks in a single region, with damaging consequences should one of these countries default.

Matters could get more complicated still if Greece fails to live up to the terms of its agreement and the fund and the EU disagree on the way ahead. Should that happen, Ms Lagarde would need to push the IMF's point of view in negotiations with her former colleagues, perhaps to the extent of arguing that an orderly restructuring of Greece's debts is preferable to imposing further austerity measures on its people. Given that Ms Lagarde has so far been firmly in the anti-restructuring camp, it remains to be seen how well she could make that switch. A new proposal on rolling over privately held Greek debt, which does little to solve Greece's problems but has the backing of the French government (see article), will provide an early test.

Ms Lagarde may also have to confront her backers in Europe if the IMF is to achieve longer-term goals. One of the most important is persuading emerging economies to rely on the fund's resources, rather than their own reserves, in times of crisis. By doing this, and more generally by influencing countries to adopt more sustainable economic policies, the fund seeks to reduce the macroeconomic imbalances that many argue lay at the heart of the global financial and economic meltdown. But this, too, relies on convincing emerging economies to trust the fund.

They are unlikely to do so as long as they continue to be under-represented at the IMF. Despite some changes that were agreed upon during the tenure of Mr Strauss-Kahn, countries like China, Brazil, India and Russia have far fewer votes than their economic heft merits. But remedying this requires over-represented countries like Belgium and the Netherlands to agree to cede more votes to emerging economies than they have thus far been willing to. Ms Lagarde's formidable negotiating skills and political savvy should help; so might her proximity to and rapport with the European establishment. If she uses those advantages well, that would go some way towards justifying yet another European at the helm of the IMF.

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Buttonwood

Wrong number

Accounting for American public pensions is still flawed



THERE is crazy and then there is accounting for American public-sector pensions. A proposed set of reforms from the Government Accounting Standards Board (GASB), the standard-setter for America's state and local governments, is a step in the right direction. But it will still leave an unsatisfactory system.

The best way to illustrate the insanity is to compare the public and private sectors. When a private company switches its pension scheme from a final-salary, or defined benefit (DB), basis to a defined-contribution (DC) basis, the intention is to save money. The company's exposure to a DC scheme is limited to the amount that it puts in; in a DB scheme, it must make up any shortfall in investment returns.

A state that switches from DB to DC for new employees would find that its cash costs rise in the short term. New hires will make their contributions to the new DC scheme, not the old DB scheme, but the state still has to cough up for existing DB benefits. The current accounting rules force the state to recognise those costs more quickly once the DB scheme is closed to new members, dissuading some states from making the move. In Nevada a study by the Segal Group, a consultancy, found that employer contributions would have to rise by 10% of payroll, or $1.2 billion, over two years.

A switch from DB to DC will save money over the long term by capping the employer's liability. But not that much. That is because many states have legal and constitutional provisions protecting existing workers' pension rights. Such provisions safeguard not just the accrued pension rights of workers; they also bar states from altering their rights with regard to their *future* service. The same protections do not apply in the private sector.

The cast-iron nature of this pensions guarantee ought, you might think, to be reflected in pension accounting. But states are allowed a more generous accounting treatment than private-sector employers. They can discount their liabilities on the basis of the assumed rate of return (8% is standard) on the assets in their pension funds. Companies have to use the (lower) yield on an AA-rated corporate bond. So the present value of a state's liabilities is lower than it would be if private-sector rules applied, even though the rights of public-sector workers are greater.

The GASB proposals do at least suggest that the unfunded portion of a state's liability be discounted at an AA rate. But calculating this portion still involves the use of the expected return on assets.

The assumption that the entire pension fund can earn 8% is highly questionable. Given the current yields on cash and Treasury bonds, it requires a double-digit return from equities over the long term. That looks improbable. The return from equities comprises the dividend yield, plus dividend growth, plus or minus any change in the rating (the price-dividend

ratio). Given that the starting dividend yield is 2%, you need to make some heroic assumptions to get to a double-digit return.

Whatever the excess return from equities, it is a reward for risk. You cannot simply assume this risk away, especially after the experience of the past ten years. After all, if states could count on a high return from equities, why stop at their pension-fund exposure? They should borrow money in the bond market and invest the proceeds in shares. They could use the profits to pay for future expenditure on schools and highways. Invest enough and perhaps state taxes could be abolished altogether. There is a chance, however, that citizens would consider this reckless.

In the past, high-return assumptions have allowed the states to get away with making lower contributions. But when the strategy goes wrong, the taxpayer foots the bill. A recent study by the Centre for Retirement Research at Boston College found that states have a funding ratio (the proportion of assets to liabilities) of 77% on the official measure, but just 51% if a risk-free rate is used.

This is a big hole to fill. A new paper* by Robert Novy-Marx of the University of Rochester and Joshua Rauh of the Kellogg School of Management in Chicago calculates that, to fully fund state and local pensions within 30 years, contributions will have to more than double. That translates into a tax increase of $1,398 per household per year, with five states (New Jersey, New York, Oregon, Wyoming and Ohio) requiring an increase of more than $2,000 a year.Taxpayers may be happy to make this contribution to the welfare of their fellow citizens. But they should at least be told about the size of the bill.

* "The Revenue Demands of Public Employee Pension Promises", June 2011

Economist.com/blogs/buttonwood

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Greece and its creditors

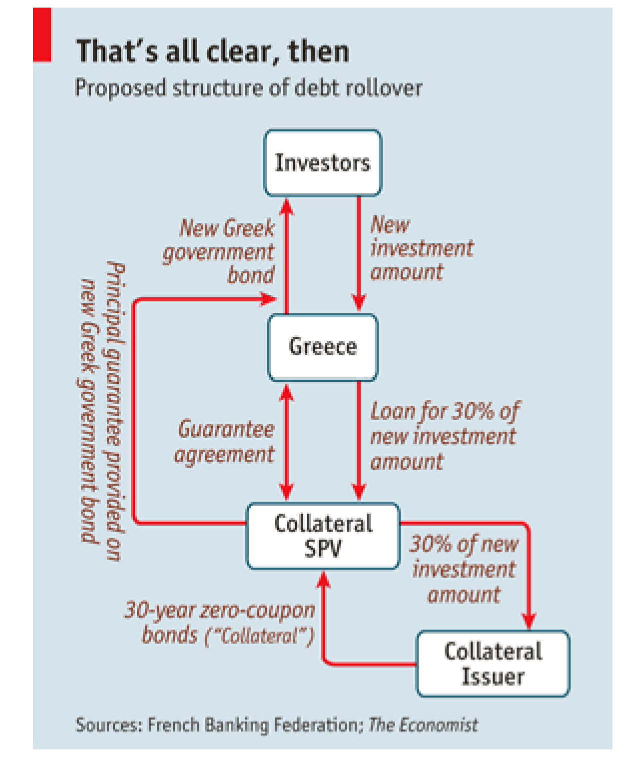
A bank bail-out by another name?

Banks would do rather too well out of a proposed rollover

IMMEDIATE worries about a Greek debt default were allayed on June 29th, with the passage of a first vote in the Greek parliament on an austerity plan. Not before fear had spread well beyond the Aegean. The interest rates demanded by investors to hold Spanish and Italian government debt rose to their highest levels in seven months on June 27th, before slipping back. On June 29th America's Federal Reserve extended a promise to provide dollars to other major central banks.

The pressure to put together a second bail-out package for Greece remains intense. A proposal from the French banking sector this week on rolling over privately held Greek debt is supposed to clear the way. Not all the details are clear but the plan seems to do too little to help Greece, and too much to help the banks.

The proposal is intended to achieve two inconsistent objectives. The first is to ensure that private creditors contribute to a Greek bail-out, to satisfy German demands that taxpayers should not have to bear all the burden of another euro-zone rescue. The second is to ensure that participation in the plan is seen as voluntary by the ratings agencies, thereby avoiding a declaration of default.



The French plan proposes giving private creditors two options. One is to ask banks to reinvest almost all of the proceeds of Greek bonds that mature between now and June 2014 in new five-year bonds. This would delay a reckoning by a few years.

The second proposal-and the one preferred by banks-is far more complicated (see chart) and is designed to improve the creditworthiness of Greek bonds. Take a deep breath; here's how it would work. As Greek bonds mature over the next three years, the country would repay holders. Banks would pocket 30% of the cash and "voluntarily" buy new, 30-year Greek debt with the rest. Greece in turn would pass on about 20% of the original bonds' value (or 30% of the amount being rolled over) to a special-purpose vehicle (SPV) that would buy AAA-rated bonds maturing in 30 years. If Greece defaults, these bonds would be used as collateral to repay banks the principal they loaned.

In the circumstances, the deal is a good one for banks. It reduces the potential loss they might suffer were Greece to default and lets them take some money out now. It also rewards them with interest payments that may rise to 8% if the Greek economy rebounds. "It seems sensible for the banks to be taking a bet like this on a Greek recovery", says Alex Tsirigotis, an analyst at Mediobanca. "If they don't take the bet, they face the potential of losses in the magnitude of 50% anyway."

For Greece, the bargain is far less compelling. The 30-year plan does nothing to reduce Greece's debt burden and could complicate any eventual restructuring. Since Greece would pay interest on all of its borrowings, but could use only part of them, its cash interest rate over 30 years would be about 10-11%. Some rescue.

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Bankia's IPO

Float hopes

A large Spanish savings bank nervously heads for the markets

IT IS a bad time to be listing one of Spain's largest savings banks, or *cajas*. Even so, despite sickly markets and fears of Greek contagion, Bankia this week pushed ahead with plans for a euro4 billion ($5.7 billion) initial public offering (IPO) in mid-July. The move is risky, but so too is delay. "There is a lot riding on this IPO," said Jose Luis Rodriguez Zapatero, the prime minister, this week.

The bank is the biggest of eight *cajas* that must raise fresh capital to comply with new government rules on capital (Banca Civica, a much smaller lender, aims to list the same day). The Bank of Spain reckons the system needs no more than euro15 billion, on top of the euro11.6 billion already committed by the state's Fund for Orderly Bank Restructuring (FROB). Analysts are less sanguine: estimates of the capital shortage range widely but have a mean of around euro40 billion-50 billion of extra cash. That is less than 5% of GDP and the FROB has a capacity of up to euro99 billion, but it is not pre-funded: raising that amount of cash in a hurry would be hard. The hope is that a successful IPO for Bankia will encourage other *cajas* to tap private capital.

Bankia, which was formed by a merger of seven *cajas*, is run by Rodrigo Rato, a former IMF chief and Spanish economy minister with little retail banking experience. It has scale in important regions like Madrid and Valencia. The bank has room to slash costs: it aims to cut euro500m by 2013. If Bankia raises the new funds, its core capital will be just over 10%.

But investors worry that Bankia also has one of the largest property-loan portfolios in the country. Its most toxic assets have been moved into BFA, a holding company that owns 100% of Bankia, and that is in turn owned by the seven *cajas*. Bankia is not on the hook for potential losses at the holding company. But if BFA needs cash-for example, to repay euro4.5 billion borrowed from the FROB-it may have to sell more Bankia stock in the future, which could depress the share price. And Bankia itself still has nearly euro38 billion of real-estate loans and foreclosed assets; 16.5% of these loans are already non-performing, and that share will rise as house prices fall further.

Another worry is that outside funding is hard to come by for all banks, including Bankia. Deposits have become dearer and banks are shrinking their balance-sheets to meet debt redemptions. Reliance on funding from the European Central Bank is climbing again.

Everything has its price. Bankia plans to sell itself at a discount of up to 54% to its book value (including the new capital). That's beneath its peer group of commercial banks and lower than the 0.8 times book value of CaixaBank, the banking business of La Caixa, a better-regarded *caja*, which was due to list on July 1st via an existing quoted vehicle.

Local demand and flexibility on price may allow the IPO to scrape through. Bankia's 11.2m retail clients are expected to buy about 60% of the issue. The real test will be the appetite among big international investors, and how the shares perform after it lists. Despite the worries, Bankia is right to push ahead. There is no guarantee markets will be calmer after the summer, especially if there are early elections. Spain has taken too long to recognise the weaknesses in some of its banks. Time to test the waters.

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American mortgages

Not quite settled

Bank of America's settlement will worry other lenders

NOT for the first time, the tough talk was merely a prelude to a hefty settlement. Brian Moynihan, Bank of America's boss, had vowed to engage in "hand to hand combat" with investors suing to recover losses on mortgage-backed securities (MBSs) peddled before the housing market collapsed. He had even likened them, none too diplomatically, to buyers of a Chevy who wanted it to be a Mercedes. In the end, though, BofA rolled over surprisingly quickly in order to relieve the worst of its housing-related headaches, a product of its ill-advised purchase of Countrywide, a gung-ho mortgage lender.

The bank will pay $8.5 billion to investors in more than 500 Countrywide-linked securitisations who had claimed the loans breached basic underwriting standards. The deal is backed by the loans' trustee, Bank of New York Mellon, and 22 of the biggest out-of-pocket money managers, including BlackRock and PIMCO.

The forceful involvement of these big investors-lucrative BofA clients in a host of areas-was an incentive for the bank to agree terms. So was the fact that the Federal Reserve Bank of New York was a plaintiff, thanks to securities inherited in the rescue of AIG. And for all his combative rhetoric, Mr Moynihan has been keen to draw a line under BofA's problems since taking over from the hapless Ken Lewis 18 months ago. He has shoved dodgy loans into a "bad bank" and restructured key businesses, while completing the integration of Merrill Lynch, an investment bank acquired during the crisis. Analysts saw MBS lawsuits as the biggest of the legacy risks dragging the bank's share price below its book value.

Some dangers remain. The settlement deals with much of the Countrywide dross but it doesn't cover loans handled by other BofA units or those securitised after being sold to third parties. Merrill faces $11 billion of residential-mortgage claims, reckons Christopher Whalen of Institutional Risk Analytics, a ratings firm.

BofA still has lots of haggling to do with Fannie Mae and Freddie Mac, the housing-finance agencies that guaranteed piles of duff loans, and with private bond insurers. The final bill will be far higher than the cheque written this week. The bank plans to set aside a further $12 billion for mortgage-related charges and thinks another $5 billion may be needed on top of that, though given the waywardness of BofA's past estimates, it could be more. The prices paid at the time for Countrywide and Merrill were, it turns out, just deposits.

The capitulation will worry other large banks even though they are less exposed than BofA, which services one in five American mortgages. The two most vulnerable are Wells Fargo and JPMorgan Chase-again, largely thanks to crisis-era acquisitions (of Wachovia and Bear Stearns, respectively). Bear Stearns alone faces $18 billion in securities-fraud claims out of an industry total of roughly $200 billion, calculates Mr Whalen.

Worse, new legal challenges are emerging all the time, the latest from the federal agency that oversees credit unions, some of which were felled by bad mortgage investments. Mortgage servicers are also bracing for combined fines of between $5 billion and $20 billion as part of a settlement with state attorneys-general over foreclosure practices (remember robosigning?). And that's to say nothing of further loan losses as house prices fall.

Mr Moynihan deserves praise for biting the bullet on MBSs. He is determined to end talk of his firm having replaced Citigroup as America's clumsiest bank. Still, it will be quite some time before BofA itself looks more like a gleaming S-Class than a lumbering old banger.

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Oil markets

Acting with reserves

Dipping into oil stocks is not a wise idea



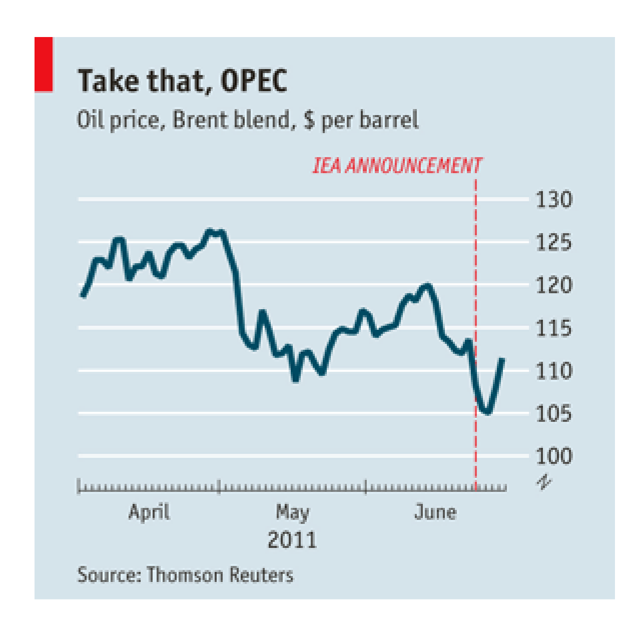
Or wait for government intervention

PUTTING something aside for a rainy day is rarely a bad idea. Raiding the piggy bank often is, as the International Energy Agency (IEA) may yet discover. On June 23rd the rich-world energy consumers' club surprised markets by announcing that its 28 members would release 60m barrels of oil over 30 days from their reserves-with the United States providing half the total. The IEA cited the disruption to oil supplies resulting from the uprising in Libya and the need to provide a "soft landing" for the global economy.

The decision to dip into reserves was unexpected, although it did not come entirely without warning. Both the IEA and Barack Obama had hinted in recent weeks that action to tackle high oil prices was on the cards. Yet the only two previous withdrawals from the oil-savings bank, set up in the wake of the oil crises of the 1970s, had come at times of more obvious emergencies-in the aftermath of Iraq's invasion of Kuwait in 1990 and of Hurricane Katrina in 2005.

One reason for the move is that the conflict in Libya, which is denying world markets around 1.5m barrels a day of exported oil, is not likely to end soon. But although the oil price hurtled above $125 a barrel in April, it then settled back to around $115 and had begun to fall further. The IEA seems to be taking pre-emptive action to plug an approaching supply gap as seasonal demand picks up in the northern hemisphere during the "driving season".

The Organisation of Petroleum Exporting Countries (OPEC) is unimpressed. Abdalla El-Badri, the group's secretary-general, had previously described the idea of an IEA reserve release as a "weapon against OPEC". Coming from a production cartel, that is pretty rich. But whether the move was really necessary is questionable.



The high oil price was already doing its job of rationing demand. And Saudi Arabia, the only country with meaningful spare production capacity, had broken with the OPEC hawks, led by Iran, and pledged to supply additional crude to make up for the Libyan shortfall. The Saudis were told about the IEA move and may not have objections: they too feel that the oil price is too high to sustain buoyant demand. And if prices fall too far for comfort the taps will be turned off on the fresh supplies they have offered.

But the IEA's move still sets a terrible precedent. It adds to the uncertainty and volatility in oil markets, according to Bill Farren-Price of PPI, a consultancy. Rich countries are now clearly prepared to use oil stocks because they do not like the price. The IEA has dramatically lowered the bar for when it might next intervene and has depleted its emergency stash in the event of more upheavals.

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Regulating finance

Patchwork planet

The rule-book governing international finance is slowly taking shape

WATCHING the world's regulators rewrite the rules of finance is a bit like supporting toddlers in an egg-and-spoon race. You want them to get to the finishing line but for every step forward there is a fumble, a squabble and lots of milling about. Yet bit by bit the main chapters of the financial rule-book are being written.

The most recent bit of progress was an agreement in Basel on June 25th to make the most important global banks hold an extra 1-2.5% of equity, the gold standard of capital. Some details of these rules still have to be thrashed out, including which banks will be named as systemically important financial institutions (SIFIs) on a global scale. Yet on capital, at least, the end of the race is now in sight. The agreement on a surcharge for the SIFIs comes on top of already-agreed "Basel 3" rules requiring all banks to raise their core-capital buffers to at least 7% of their risk-weighted assets.

The proposal has its critics. JPMorgan Chase argues that the minimum standards will make it hold 45% more capital than it did during the crisis, obviating the need for extra padding. In addition to capital, banks will also have to hold more liquid assets to safeguard against a funding freeze and reduce their reliance on fickle sources of financing. The cumulative impact on cost and risk is difficult to assess. "An enormous amount has already been done," says the head of a big global bank. "We're now putting cherries on the icing on the marzipan on the cakes."

Some worry about perverse consequences if SIFIs are assumed to be less likely to fail because they hold more capital, will be watched more closely and will have been officially certified as too important to go under. "You will have created an automatic list of preferred counterparties," says one bank boss. That might enable the SIFIs to borrow more cheaply.

A related worry, reckons Davide Taliente of Oliver Wyman, a consulting firm, is that the current methodology of selecting SIFIs may not distinguish clearly enough between the chances of a bank going bust and the cost of cleaning up the mess if it does. For example, banks that are organised into discrete subsidiaries may be less costly to save than banks with more centralised structures because specific problems can be contained without necessarily affecting the whole group. This ought to be encouraged, yet it might also count against banks if they are less able to move capital easily between units to bolster bits that get into trouble.

A further worry is whether the rules will be implemented uniformly. Fierce lobbying is taking place, with several big banks, mainly in Asia but also a few in Europe, arguing that they should be left off the list of SIFIs or put on its lowest rung because their businesses are mainly focused on their home markets or are skewed towards supposedly safe businesses such as retail banking. American banks throw barbs at the way that Europeans calculate the riskiness of their assets, which affects the amount of capital they have to hold.

Worries that rivals will be handed an unfair advantage by uneven implementation go deeper than capital (see table). European banks now face stricter rules on pay than American ones, for example. The rules have the merit of aligning the interests of bank employees with shareholders but European banks say they are being outbid by rivals when they compete for employees in Asia in particular.

The rules of engagement

A snapshot of international financial regulation

Issue	Why is it important?	Current state of play	Areas of contention	Likely outcome
Capital standards	Capital protects banks against unexpected losses	Basel 3 will raise minimum core capital to 7% by 2019. Much of what counted as capital under the old rules is now excluded	American banks are critical of how European banks risk-weight assets. Britain and Sweden want discretion to top up capital further; Brussels is not keen	Convergence on a new de facto core capital level of about 10%
Surcharge on SIFIs*	The most important global banks cost more to clean up, so should hold more capital	Basel committee proposal to apply a sliding charge of 1-2.5% to the most systemically important banks by 2019. An even higher charge of 3% is held in reserve	There are still disagreements over the criteria for choosing SIFIs. Some large Chinese, Japanese and European banks are lobbying for exemptions or lower charges because they are domestically focused	The global surcharge will probably capture most of the top-tier banks. Others may wish to be "promoted" later if borrowing costs decrease
Derivatives clearing	Over-the-counter derivatives can amplify financial shocks because they allow opaque concentrations of risk	Dodd-Frank legislation in America calls for clearing of standardised contracts and higher capital and margin requirements for uncleared ones. Europe is considering similar rules	American banks complain that European rules allow for lower margin and capital requirements, which might lead to a shift of derivatives business to European banks	Some shift of derivatives trading from America to Europe, reinforcing an existing trend
Liquidity & funding	Banks' reliance on short-term funding made the financial system vulnerable to shocks	Basel committee is reviewing standards that would force banks to raise more long-term funding and retail deposits as well as to hold more liquid assets	National regulators show varying degrees of enthusiasm for tougher rules. The European Commission and American regulators think the rules may slow lending	A softening of the proposed liquidity and funding rules
Pay	Regulators worry that bonus policies encourage bank employees to take large risks	The Basel committee has proposed greater disclosure of pay policies. Europe has limited cash bonuses	European banks complain that they can't compete on pay to hire "talent"	Divergence in bonus rules may put some banks at a disadvantage. Other benefits such as base salaries will rise
Resolution	Resolution plans aim either to make it less costly to save banks or to let them fail safely	Proposals to resolve big, cross-border banks will be looked at over the next year. Many countries are implementing new domestic resolution regimes	In the absence of global rules countries may create resolution plans to protect domestic savers and taxpayers over foreign creditors	Cross-border regime will be hard to achieve, leaving a patchwork of national regimes and increasing pressure on banks to create subsidiaries

Source: *The Economist*

*Systemically important financial institutions

Resolution needed

Derivatives are another area of contention. America is putting the finishing touches to regulations that will force more of these instruments onto exchanges and into central clearing houses. Europe professes to be doing the same but more slowly, prompting concerns in America that business will flow to big European banks. "The Americans are right when they see the world dividing into a closed US market, and an open global business based in London," says Simon Gleeson of Clifford Chance, a law firm. "But it was happening anyway."

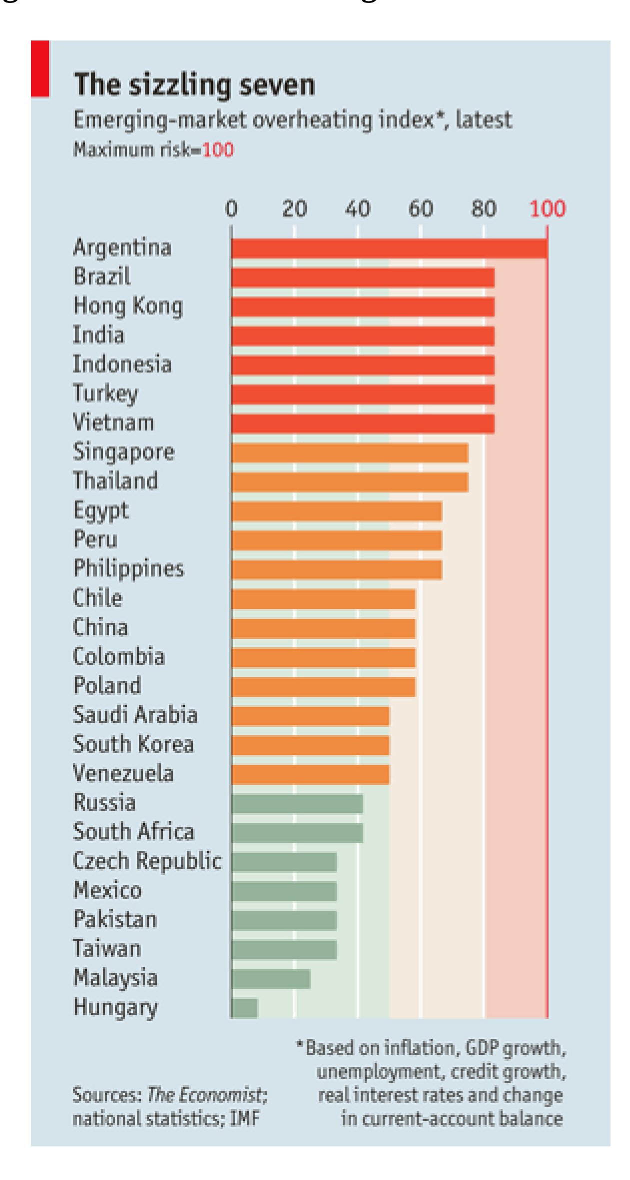
As the work of implementing many of these new rules moves to national regulators they should keep two risks in mind. The first is that differences in rules, both between countries and between different markets, will encourage risk to migrate to darker corners of the financial system. A second is that, having come this far, rule makers will put off the work of bank resolution. The real test of regulation is whether a big bank can fail without hurting taxpayers. That race has barely begun.

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Economics focus

Some like it hot

Which emerging economies are at greatest risk of overheating?



WHEN the term "emerging markets" was coined 30 years ago by Antoine van Agtmael, then at the World Bank, these economies accounted for one-third of global GDP (measured at purchasing-power parity). Now they make up more than half. More dramatic still, emerging markets produced more than four-fifths of global real GDP growth over the past five years.

Important though these countries are, many commentators still tend to lump them together in a way they never would with developed economies. Headlines about rising inflation, rampant bank lending and a flood of capital inflows might appear to suggest that virtually all emerging economies are overheating. In reality, some are red-hot and others are only lukewarm. An analysis by *The Economist* tries to identify the hottest spots.

The chart shows our ranking of 27 emerging economies according to their risk of overheating. We take each economy's temperature using six different indicators. The scores from these indicators are then summed to produce an overall index; 100 means that an economy is red-hot on all six measures. (The rankings for all of the individual indicators can be found here)

Start with inflation. This has jumped more sharply in emerging economies than in the developed world, to an estimated average rate of 6.7% in May. But it ranges from a modest 1.7% in Taiwan to 20% or more in Vietnam, Venezuela and Argentina (using private-sector estimates for the latter rather than the government's lower but dubious figure). Most of the

pickup in inflation over the past year was due to higher food prices, which have a bigger share of the consumer-price basket than in rich countries. So if food prices stabilise, headline inflation will fall later this year. In China core inflation (excluding food and energy) is only 2.4%, but it is a more worrying 5.5% in Brazil and over 8% in India. Where growth is bumping up against capacity constraints and labour markets are tight, food inflation may spill over into wages and other prices.

Spare room

Our second indicator tries to gauge spare capacity by comparing a country's average GDP growth rate since 2007 with its growth rate in the previous ten years. Growth has exceeded its long-term trend in Argentina, Brazil, India and Indonesia, but is well below trend (suggesting ample spare capacity) in Hungary, the Czech Republic, Russia and South Africa. China's growth has also been slightly below trend. An economy's potential growth rate may have increased over time, thanks to reforms. However, tight labour markets (our third indicator) confirm that several economies have been growing unsustainably fast. In Argentina, Brazil, Indonesia and Hong Kong unemployment is well below its ten-year average. Brazil's jobless rate is at a record low and wages are accelerating.



Our

The fourth symptom of overheating, and one of the most important, is excessive credit expansion, which can lead to asset bubbles as well as inflation. The best measure of excess credit is the difference between the growth rate in bank credit and nominal GDP. It is normal for bank lending to grow a bit faster than GDP in an emerging economy as the financial sector develops, but credit is outpacing GDP by an alarming margin in Argentina, Brazil, Hong Kong and Turkey. Lending to the private sector has increased by around 20% more than nominal GDP over the past year in both Turkey and Hong Kong. But not all emerging economies are awash with liquidity. In ten of the 27 countries, including Russia, South Africa, Egypt and Chile, credit is growing more slowly than GDP. The growth rate in China's bank lending has halved over the past year or so, and is now broadly in line with GDP growth.

Our fifth indicator is the real rate of interest, which is negative in over half of the economies. That may be appropriate where demand is weak but in rapidly growing economies, such as Argentina, India, Vietnam and Hong Kong, negative real rates are fuelling faster credit growth and inflation. At the other extreme, Brazil's real interest rate of almost 6% is among the highest in the world. China's benchmark lending rate is slightly positive but this understates the extent of its recent monetary tightening: the central bank has also sharply raised banks' reserve requirements and capped credit growth.

Mercury rising

Our final temperature gauge is the external balance. A widening current-account deficit can be a classic sign of overheating, as domestic demand outpaces supply. Turkey looks particularly worrying, with its deficit expected to jump to 8% of GDP this year, up from 2% in 2009. Rising current-account deficits in Brazil and India also suggest domestic demand is growing too fast.

Adding up the six scores reveals seven hotspots where most of the indicators are flashing red: Argentina, Brazil, Hong Kong, India, Indonesia, Turkey and Vietnam. Argentina is the only economy where all six indicators are on red, but Brazil and India are not far behind. China, often the focus of concerns about overheating, is well down the rankings in the amber zone, partly thanks to more aggressive monetary tightening. Russia, Mexico and South Africa are in the green zone, suggesting little risk of overheating.

Red-hot economies with negative real interest rates need to raise them. Fiscal policy is also too loose in many places. Budget deficits have been reduced slightly since 2009 but this is largely because strong growth has boosted tax revenues. On a general-government definition, six of the seven are still running quite large deficits (8% of GDP in India, for example); only Hong Kong's government is in surplus. Given that their economies are booming, all of them should arguably be running a surplus. Drivers who ignore red warning lights on the dashboard risk a serious breakdown.

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The space shuttle

Into the sunset

The final launch of the space shuttle brings to an end the dreams of the Apollo era



IF THE weather holds and there are no unforeseen complications, then early in the morning on July 8th a woman and three men will ascend the launch tower at Florida's Kennedy Space Centre, strap themselves into *Atlantis*, the last operational space shuttle, and, as the engines ignite, wait for the countdown to reach zero. Burning thousands of litres of rocket fuel every second and blasting superheated gas into the water-filled trench beneath the pad, the engines will kick up the vast gouts of steam and smoke that characterise a rocket launch.

Atlantis will rise on a pillar of fire, slowly at first but then faster and faster. As it heads east across the Atlantic, its flight will flatten from vertical to almost horizontal. Around two minutes after launch, the boosters on either side of the shuttle will fall away, followed shortly afterwards by the giant external fuel tank strapped to the spaceship. Eight-and-a-half minutes into the flight and the craft, now travelling at about 27,000kph (17,000mph), will reach orbit and the four astronauts will enjoy the rare privilege of seeing their home planet from space.

They will also fly into the history books. Their mission, to resupply the International Space Station (ISS), will be the shuttle's last. After 30 years, 135 launches and two disasters, the shuttle programme is being scrapped. *Atlantis*, alongside its sister ships *Endeavour*, *Discovery* and the prototype *Enterprise* (named, following a campaign by fans, after the galaxy-trotting counterpart from "Star Trek"), will disperse to museums.

Billions of dollars will be saved, thousands of workers along Florida's "Space Coast" (and thousands more farther afield) will lose their jobs, the ISS will rely on Russian, European and Japanese rockets for its supplies and the nation that won the space race by putting Neil Armstrong's footprint on the moon with Apollo 11, will be without the ability to send astronauts into space. Any that do go will rent seats on the Russian rockets.

One for the space cadets

In one way, it is surprising that the shuttle lasted as long as it did, for the programme never really satisfied anyone. Authorised by Richard Nixon in 1969, the shuttle was a flying compromise. It fell between the desires of the "space cadets" who, fired by the success of the Apollo project, wanted to press on into the solar system, building a lunar base or perhaps sending men to Mars, and those who thought that the billions of dollars spent on the moon missions might be better used back on Earth.

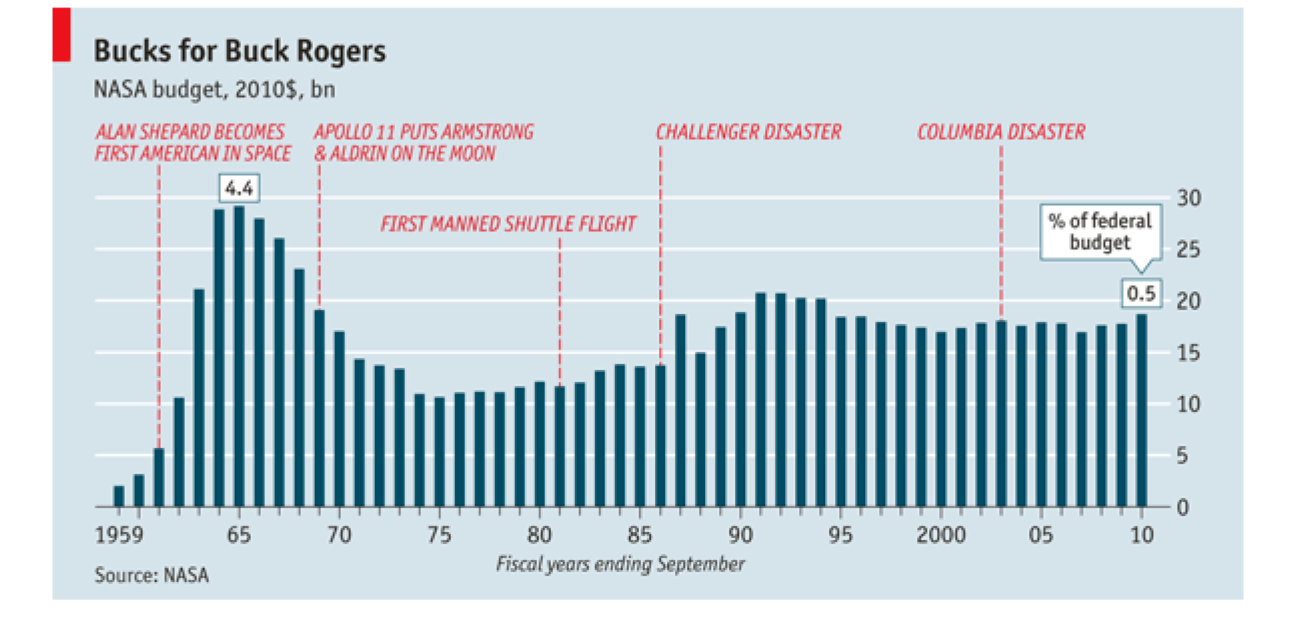
The original plan called for building a shuttle fleet and an orbiting space station at the same time. But Nixon was unwilling to pay for both, so postponed the station (a cousin of which exists today, thanks in no small part to the Russians, in the form of the ISS). And although NASA, America's space agency, is a civilian outfit, the American air force took a keen interest in the shuttle. Its cargo bay was designed to hold spy satellites, although the American military maintains its own space operation (see article).

The shuttle was to be a multipurpose ship that would carry all of America's government and commercial cargoes into space. Its biggest selling-point was its reusability, unlike other rockets which are discarded after one firing. Not having to build a fresh rocket for every mission ought to have brought down the cost of reaching orbit. But a fully reusable spacecraft proved too hard to build, which is why the shuttles carry a huge external fuel tank that is ditched into the ocean after each flight. The shuttle's engines and the tiles that protect it from the heat of re-entry proved expensive to maintain, and divvying up work among different contractors added to the costs.

Engineers told Congress that shuttle missions might fly up to once a week, allowing NASA to amortise its development costs over lots of launches; in the event there have been only a handful each year. Estimates for the cost of a shuttle launch vary, but NASA claims about $450m a shot. Some independent observers reckon it is nearer $1.5 billion. The market for launching satellites is murky, but by comparison Russia's expendable Proton rockets (which are almost unchanged since the 1960s and which have a similar cargo capacity to the shuttle) are thought to cost around a quarter of NASA's figure for the shuttle.

Then there was safety. In 1986, after the failure of a gasket in one of its booster rockets, the shuttle *Challenger* disintegrated in mid-air shortly after lift-off, killing its crew of seven. In 2003, as it was re-entering Earth's atmosphere, *Columbia* broke apart over Texas. It later emerged that the spacecraft's heat shield had been damaged on launch, letting superheated air inside and tearing it apart. For an experimental spaceplane, two disasters in 135 missions is not a terrible record (the Apollo project was far more dangerous: of the 16 manned missions to use Apollo hardware, one suffered a fatal accident on the ground during tests and one was almost lost in space). But the shuttle was not sold to the public as an experimental craft. Worse, the reports into the two accidents slated NASA's management style and internal culture, accusing the agency of complacency and recklessness. Both disasters, the reports concluded, had been accidents waiting to happen.

There were successes, too. One was the 1993 in-orbit repair of the Hubble Space Telescope; without astronauts to fit new lenses, the enormously expensive satellite would have been a flop. Disasters apart, the shuttle generally succeeded in at least one aspect of its mission: its regular launches (not to mention stunts such as flying a 77-year-old astronaut, and assorted senators and congressmen) made space travel seem routine, almost mundane-which helped to dampen public interest.



A compromise tends to leave everyone unhappy, and 30 years on so it proved with the shuttle. The costs continued to rankle with those who thought manned space flight a waste of money, and three decades spent stuck in low-Earth orbit never stopped frustrating those who wanted to go farther. Michael Griffin, a former NASA boss, argued in 2007 that the shuttle had cost so much money and time that it had held back the agency for decades. Had NASA persisted with the much bigger Saturn rockets that powered the moon missions, argued Mr Griffin, launch costs would be lower, the agency would have had more money for science and deep-space exploration, and astronauts might have visited Mars already.

The future, in theory at least

So, although the shuttle-which has been the icon of America's space effort for a generation-will be missed, harder heads will be glad to see the decks cleared. Last year Barack Obama outlined his plans for the future of America's space programme. Its most striking feature is to delegate the humdrum task of ferrying people and equipment to low-Earth orbit to the private sector. Rocketry is a mature technology, and NASA has always relied on using contractors to build its rockets and spacecraft. In future, private firms will run the missions as well. Later this year two spacecraft, one which has been designed by Orbital Sciences, a Virginia-based firm, and another by SpaceX, a Californian company run by Elon Musk, an internet entrepreneur, will make cargo runs to the ISS. The hope is that such craft will soon be able to carry humans too, and at a far lower cost than NASA's efforts.

Liberated from the burden of having to service the ISS (which Mr Obama wants to keep until 2020, six years longer than originally planned), NASA will be free to concentrate on loftier goals. In 2010, when Mr Obama outlined his ideas, he spoke, somewhat vaguely, of a manned trip to a near-Earth asteroid, to be followed at some unspecified date in the 2030s by the ultimate space-cadet dream-a manned mission to Mars. To that end, NASA will spend billions of dollars developing new engines, propellants, life-support systems and the like. Even the shuttle will live on, in some sense, since the Space Launch System-the unromantic name of the beefy rocket needed to loft astronauts and cargoes into high orbits or farther into the solar system-will be built partly from recycled shuttle parts in an effort to save money and use familiar technology. And spending will be managed through fixed-price contracts instead of the "cost-plus" deals that helped to inflate the price of the shuttle.

It sounds sensible, in theory. But not everyone is convinced. Despite the warm words of the nation's leaders, America's manned space-flight programme has been becalmed in Earth orbit for decades. The George W. Bush-era Constellation project, for instance (later cancelled by Mr Obama), was supposedly going to be a return mission to the moon followed by a trip to Mars. It was described officially as "Apollo on steroids", but after the budgetary details became clear, one former NASA manager glumly amended that to "Apollo on food stamps".

Critics of the Obama plan point to vagueness and lack of detail, contrasting his speeches unfavourably with John Kennedy's clear and specific demand in 1961 for a moon mission before the decade was out. Such references to past glories are symptoms of a broader problem. Space enthusiasts, politicians and the public are, almost half a century later, still living in the shadow of the magnificent achievements of the Apollo programme-achievements which seem all the

more incredible as the years pass. Yet Apollo was a creature of a unique set of historical circumstances that are unlikely to be repeated.

The space race was an outgrowth of the development of ballistic-missile technology, it was fuelled by cold-war paranoia about Soviet science and it happened at a time when America's leaders were willing to spend huge amounts on propaganda. Even then, there were critics and doubters-not least, in private, Kennedy himself. But his assassination sealed the deal, for what politician would dare to abandon the martyred president's goal?

A more fundamental objection is that manned space flight is a waste of time. The flights are expensive (at the height of its Apollo-era pomp, NASA was sucking in around 4.4% of total government spending) and dangerous, and the benefits are hard to measure.

Even with 50 years of technological advances and assuming adequate cash and political will, a Mars mission would be harder than the ones to the moon. It would take six months to reach the red planet, compared with three days to the moon. Along the way the astronauts would be bombarded by cosmic radiation and risk being baked by unpredictable solar flares. Upon arrival it would take many minutes for radio messages to reach mission control, so the astronauts would have to deal with emergencies without external help. Better, say the doubters, to spend the money on scientific missions, such as Hubble's successors, and leave exploration to the kind of robotic missions that have successfully roved about on the surfaces of Mars and Titan, one of Saturn's moons. Robots are relatively cheap, hardy and leave no grieving families if something goes wrong.



On a pillar of fire

None of this means that space will matter less. Earth orbit is and will remain a valuable place, as the swarms of satellites that circle the planet attest. Everything from logistics to farming, military surveillance, telecoms, weather monitoring, TV broadcasts and much more rely on satellites. This business will continue to prosper, rockets will continue to fly and the humble business of using space to improve life and make money back on Earth will carry on. Other space agencies, notably Russia's, plan to continue exploring: Russia talks of a robotic base on the moon, and unmanned trips to the surface

of Venus and the moons of Mars. Even manned space missions may have a commercial future of sorts, if companies like Virgin Galactic succeed in ferrying tourists to the edge of space for $200,000 a seat.

But the heroic phase of space exploration, with chiselled-jawed astronauts venturing where no man has gone before, inspiring schoolchildren and defending democracy (or socialism), is now a thing of the past. Mr Obama's plan may revitalise NASA and send American astronauts into the solar system once again. But the agency's history as a political football suggests it is unlikely.

On the other hand, space cadets are an optimistic lot. Robert Goddard, an early rocket pioneer and one of the fathers of manned space flight, endured decades of ridicule and died before his dreams became reality. A few hope for a modern rerun of the space race, with China or perhaps India providing the competition. Squint and it is just about possible to see some broad parallels with the 1960s: China and India are rising powers, developing rapidly and, outwardly at least, full of confidence; America is uncertain, weighed down by foreign misadventures and a misfiring economy.

China is the more advanced newcomer. In 2003 it became only the third country to put a human into orbit atop a rocket it had developed itself, instead of hitching rides on American or Russian spacecraft. Yang Liwei, then a lieutenant-colonel in the Chinese air force, spent 21 hours in space.

China moon

Since then, five more "taikonauts", as Chinese astronauts are sometimes called, have been into orbit. China has bigger ambitions and, besides launching a slew of satellites to attract business for its Long March rockets, it plans to build a very small space station of its own, starting later this year. An unmanned sampling mission to the moon is pencilled in for 2017, with the objective of gathering lunar soil and returning it to Earth. By 2025 the goal is to send a manned mission there. Imagine the symbolism, wrote Bruce Sterling, a science-fiction author, if in the coming decades a spacecraft containing several young Chinese (or Indian) astronauts were to land on the moon, where the group would carefully fold away the American flag planted by Neil Armstrong and Buzz Aldrin, and plant their own flag in its stead.

Such an antagonistic gesture is unlikely. Parallels with the original space race can be overblown: after all, the modern world is very different from that of the 1950s and 1960s. America's rivalry with China (and to a lesser extent India) is nothing like the life-and-death struggle against the Soviet Union. There is none of the paranoia and fear that marked the early cold war, and little desire to return to it. "Big science" and big governments are less trusted now. And space is, in some ways, old news. Even if the Chinese do arrive on the moon on schedule, it will be more than 60 years since the last Americans left.

Like Mr Obama's aspirations for a Mars mission, China's ambitious moon project is at an early stage of development and the dates seem somewhat elastic. China still has a smaller manned-space-flight infrastructure than Russia has. It doesn't seem likely that the space race will start up again, but if it does, the decisions that kick it off will be taken in Beijing or New Delhi, not Washington, DC.

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The military uses of space

Spooks in orbit

The other space programme

DESPITE its strong inheritance of military DNA (much of it, somewhat counterintuitively, coming from the American navy), NASA is a civilian agency, set up that way in deliberate contrast to the military-run Soviet space programme. In practice, the distinction is not always so clear-cut: NASA has done plenty of work for the Pentagon. But America's armed

forces maintain a separate space programme of their own, largely out of the public eye. Although hard numbers are difficult to come by, it is thought that the military space budget has matched or exceeded NASA's every year since 1982.

All the signs are that it is roaring ahead. The air force's public space budget (as opposed to the secret part) will increase by nearly 10% next year, to $8.7 billion, with much of it going on a new generation of rockets. Bruce Carlson, director of the National Reconnaissance Office, the secretive outfit that runs America's spy satellites, announced in 2010 that his agency was embarking on "the most aggressive launch schedule...undertaken in the last 25 years".

Much of the money goes on satellites-spy satellites for keeping tabs on other countries, communications satellites for soldiers to talk to each other, and even the Global Positioning System satellites, designed to guide soldiers and bombs to their targets, and now expanded to aid civilian navigation.

But there are more exotic programmes. The air force runs one for anti-satellite warfare, designed to destroy or disable enemy birds. Another includes experimental aircraft, such as the X-37, a cut-down, unmanned descendant of the space shuttle. The air force will not say what the X-37 is for. One theory is that it is a spy plane, designed to catch savvy targets that know how to go to ground when spy satellites-which have predictable orbits-are overhead. Another is that it is intended to destroy satellites, or to drop bombs from orbit.

Other nations are flexing their muscles. American commanders report that China regularly fires powerful lasers into the sky, demonstrating their ability to dazzle or blind satellites. In 2007 a Chinese missile destroyed an old weather satellite, creating a huge field of orbiting debris. Afterwards, Russia spoke publicly about its anti-satellite weapons. This is one space race that is well under way.

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New fiction

Jungle formula

The call of the Amazon

The Devil's Garden. By Edward Docx. *Picador; 324 pages; pound12.99.* Buy from Amazon.co.uk

State of Wonder. By Ann Patchett. *Harper; 353 pages; $26.99. Bloomsbury; pound12.99.* Buy from Amazon.com, Amazon.co.uk



IMPENETRABLE forest, strange cultures and dangerous creatures-testing man's courage against the worst that nature can throw at him or her-have long fascinated storytellers of all cultures, from the anonymous author of "Babes in the Wood" to Joseph Conrad's "Heart of Darkness". What wilder botanical battlefield is there than Amazonia? Its vast size and impassable interior seem to defy exploration, which is the allure for two talented novelists, one British and the other American. Both test their protagonists to the limit as a way of exploring our continued fascination with the rainforest and the extraordinary power it wields over those who are unprepared or ill-equipped to deal with its mental and physical demands.

Corruption in "The Devil's Garden", Edward Docx's third novel, comes in many guises. Dr John Forle and his small team of researchers lead a peaceful existence on a station deep in the jungle. His quiet work involves tracking ants-a military society that poisons patches of the rainforest (the eponymous devil's gardens) to ensure their survival. But the researchers' routine is shattered when a turf war erupts between tribal drug smugglers and military forces sent by the government to secure the oil-rich area for investment. Unwilling to be forced out from the station that is the heart of their work, the research team gets caught up in the escalating violence.

Mr Docx's prose is punctured with episodes of gruesome torture. When the team is kidnapped, the soldiers cut out the tongue of a local missionary as a way of silencing his prayers, and afterwards hold up the twitching bloody lump in glee. Dr Forle escapes but becomes delirious with hunger and fever. Coming upon the soldiers' leader he stabs him with animal savagery. Mr Docx does not shield your eyes.

Corruption is a theme that leaches into the story from the bottom up: the ants, the immediate jungle conflict, the invasiveness of Western society. A diplomatic storm trooper, known as the Judge, describes the ugly truth to Dr Forle: "It began ...in blood and slaughter; it became conquest and slavery...in need of disguise, it pulled on the robes of religion and then the suit and tie of the market; until eventually it came to conservationism." Mr Docx doesn't endorse Western intrusion, but he doesn't apologise for it either.

In Ann Patchett's "State of Wonder" nature is the threat, not humans. Dr Marina Singh is sent into the Amazon to investigate the progress of a fertility study that her mentor from medical school, Dr Annick Swenson, is conducting in secret. Dr Swenson lives with the Lakashi tribe-a joyful people whose women can reproduce well into old age thanks to a magical substance they ingest by ritually scraping their teeth down the trunks of a tree. Marina also wants to uncover the story of a colleague's death, but she soon becomes engrossed by Dr Swenson's miraculous work.

Marina struggles with her new environment: the nightmares from the Larium she has to take against malaria, deadly insects, extreme weather and, always, the whispering darkness. In her fear she becomes reliant on a young deaf boy called Easter, and slowly assimilates into the tribe. Ms Patchett tracks Marina's thoughts with particular intuitiveness so that her character's feelings of isolation, fear and self-doubt begin to creep across the reader's own skin. Soon, though, comes the

test. When Easter is attacked by an anaconda Marina takes a machete and hacks the snake's body away, saving the boy's life. Later she performs a caesarean in a treetop hut with no drugs or equipment; a procedure that has haunted her since she blinded a newborn in a similar operation in her student days. Despite these adventures, the book is slow-paced with long passages about the forest and Marina's own thoughts. But the pay-off comes from being immersed in Ms Patchett's enchanting prose and wondrous storytelling.

Mr Docx's "The Devil's Garden" is written in punchy action-packed paragraphs, whereas "State of Wonder" is a personal journey, crammed with sumptuous description. V.S. Naipaul's recent comments about female authors-that they can never be his equal because of their "sentimentality, and narrow view of the world"-are debunked here. Ms Patchett has a feminine touch, and that is one of the strengths of her writing. Both books carry the same message: despite the dangers of the jungle, it will forever tempt those with a thirst for adventure and knowledge, but intervention often causes more harm than good-for Amazonia and the plucky pioneers. Perhaps it is best left untouched.

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The city of Rome

Noisy and eternal

Rome has always been violent, aggressive and intimidating

Rome: A Cultural, Visual and Personal History. By Robert Hughes. *Knopf; 534 pages; $35. Weidenfeld & Nicholson; pound25.* Buy from Amazon.com, Amazon.co.uk



A monumental piece of history

NO CITY, writes Robert Hughes, "has ever been more steeped in ferocity from its beginnings than Rome". This dauntingly aggressive city-state made itself the capital of Europe's biggest empire, and then became the seat of western Christendom. Unsurprisingly, it has acted as a magnet for men (and the occasional woman) of intimidating ambition, untroubled by the use of violence for the attainment of their ends.

One of the city's semi-legendary rulers was Tarquin the Arrogant who is credited with inspiring the "tall poppy" approach to governance: he reputedly believed the best way to start administering a vanquished city was to remove the heads of its leading citizens. Among Rome's later emperors was Valens, whose purge of pagans was described by one fourth-century chronicler as "monstrous savagery". As Mr Hughes writes, "men were maimed, hideously torn with hooks, and dragged off to the scaffold and the chopping-block."

More than a millennium later, the city was in thrall to "quarrelsome, tough, crazy" Pope Sixtus V, as a later poet called him. A 16th-century proponent of zero tolerance, Sixtus had those who failed to keep the Sabbath condemned to the galleys. Sixtus's violent, if productive, five-year papacy exemplified a recurrent theme in Rome's history: the entwining of brutality with lavish creativity. It was he who built many of the straight roads and broad squares on which his successors bestowed the Baroque churches and fountains that have been the city's pride ever since.

If Rome's history is monumental, then so is the task of telling it. A story that lasts almost 3,000 years and is pivotal to so much of Western civilisation requires a chronicler of well-nigh unattainable erudition, who can write with the skill needed to prevent readers from succumbing to a literary version of Stendhal syndrome. Mr Hughes, the Australian-born art critic of *Time* magazine, comes as near as anyone to fulfilling that job description and for much of this wide-ranging volume he succeeds magnificently. He is at his most instructive and entertaining in the period that roughly coincides with the construction of Saint Peter's basilica, which "took 120 years and lasted for the lifetime of 20 popes". This was the age of Bramante, Michelangelo, Julius II the "terrifying Pope", and that eccentric Baroque master, Guido Reni, who was so scared of women that only his mother was allowed to touch his laundry. This was also the period that encompassed the Roman sojourn of Caravaggio whose violence and genius were so much of a piece with the city's history. "Saturnine, coarse and queer", writes Mr Hughes, that "he thrashed about in the etiquette of early Seicento Rome like a shark in a net."

Prose of that quality is of itself enough to commend this work. But there is no denying the book is uneven. There are disconcerting inaccuracies: Mr Hughes seems to think polenta is characteristically Roman when in fact it is quintessentially northern. And at times he fails to exert on his work the iron discipline that characterises the only comparable work in English, Christopher Hibbert's "Rome: The Biography of a City", published in 1985. Mr Hughes's account of the Republic, for example, drifts away from the city itself to become the story of the making of the Roman empire. More jarringly, the chapters supposedly devoted to the city's 20th-century history dwell at length on individuals and movements who had little to do with Rome or, like the Futurists, actively loathed it. The entire section could be retitled "A Brief History of Modern Italian Art".

By then, you feel the author has been exhausted by the sheer richness of his material. Rome, he writes, "makes you feel small, and it is meant to." But then he adds: "It also makes you feel big, because the nobler parts of it were raised by members of your own species. It shows you what you cannot imagine doing, which is one of the beginnings of wisdom."

The dangers of the internet

Invisible sieve

Hidden, specially for you

The Filter Bubble: What the Internet is Hiding From You. By Eli Pariser. *Penguin Press; 294 pages; $25.95. Viking; pound12.99.* Buy from Amazon.com, Amazon.co.uk

ELI PARISER is worried. Why? Call a friend in another city or a foreign country, and ask them to Google something at the same time as you. The results will be different, because Google takes your location, your past searches and many other factors into account when you type in a query. In other words, it personalises the results. As Larry Page, the chief executive of Google, once put it, "the ultimate search engine would understand exactly what you mean, and give back

exactly what you want." Eric Schmidt, executive chairman of Google, muses that someday it might be possible for people to ask Google which college they should apply for, or which book to read next.

This is only one example of internet personalisation. Mr Pariser, an internet activist best known as a leading light at MoveOn.org, a progressive online campaign group, sees this as a dangerous development. Netflix, Amazon and Pandora can predict with astonishing accuracy whether you will enjoy a particular film, book or album, and make appropriate recommendations. Facebook shows you updates from the friends you interact with the most, filtering out people with whom you have less in common. "My sense of unease crystallised when I noticed that my conservative friends had disappeared from my Facebook page," Mr Pariser writes. The result is a "filter bubble", which he defines as "a unique universe of information for each of us", meaning that we are less likely to encounter information online that challenges our existing views or sparks serendipitous connections. "A world constructed from the familiar is a world in which there's nothing to learn," Mr Pariser declares. He calls this "invisible autopropaganda, indoctrinating us with our own ideas".

It all sounds scary. Mr Pariser concedes that there is a good reason for all this personalisation and filtering. When so much information is available, it makes sense for websites you visit to filter it using information about you, your interests and your friends. Essentially, you trade personal information in return for more useful results. But this neuters the internet's potential to break down social barriers between people or groups who might otherwise not connect with each other. "We're getting a lot of bonding but very little bridging," Mr Pariser worries. Worse, as the internet becomes an increasingly important source of information (it is now second only to television as a source of news in America, and is already the main source of news for the under-30s) people will be invisibly steered away from important issues that are unpleasant or complex, such as homelessness or foreign policy. Mr Pariser is concerned, in short, that because of personalisation, the internet is failing to live up to its "transformative promise".

The question of whether the internet is inherently pro-democratic has become a hot topic lately, particularly in the light of the Arab spring, which has provided ammunition for those on both sides of the argument. In "The Net Delusion", which came out in January, Evgeny Morozov attacked what he called the "cyber-Utopian" view of the merits of the internet as a force for liberation and empowerment, pointing out that it can just as easily be used as a tool of repression. Mr Pariser's thesis is noteworthy because in contrast with Mr Morozov's gleeful iconoclasm, he is critiquing the internet from an openly progressive starting-point.

Mr Pariser's book provides a survey of the internet's evolution towards personalisation, examines how presenting information alters the way in which it is perceived and concludes with prescriptions for bursting the filter bubble that surrounds each user. Some of the author's suggestions make sense: there is unquestionably a case for internet firms to give users more control over the personal information being held about them. You can also turn off personalisation in many cases. And if you are still worried about filter bubbles, you can favour sites that are transparent about the ways in which they filter and present information (though that rules out Facebook and Google, Mr Pariser's main villains, both of which regard their filtering algorithms as trade secrets).

Some of Mr Pariser's other ideas, however, are less convincing. He proposes that big internet companies appoint independent ombudsmen, like those at newspapers. He advocates systems to promote more serendipity (by which he seems to mean randomness)-Amazon could recommend books outside your usual genres, for example, just in case you like them. Another suggestion is that filtering algorithms could be complemented by human editors who show you worthy things you ought to see, as well as things the algorithms calculate you will want to see. That will simply open internet firms, like news providers, to accusations of bias. Strangest of all, Mr Pariser calls for an "active promotion of public issues and cultivation of citizenship" by big internet firms. Whether or not you agree with Mr Pariser's prescriptions, however, there is no doubt that his book highlights an important and easily overlooked aspect of the internet's evolution that affects everyone who uses it.

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New film

A Pirandellian thriller

A cult director resurfaces



"ROAD TO NOWHERE", the first feature in more than 20 years from Monte Hellman, a legendary American director, is a ravishing Pirandellian film noir about the making of a film based on a real-life mystery. At the centre of the story is a vamp named Velma Duran (Shannyn Sossamon, pictured above), who is first shown languidly drying her nails, after which a series of enigmatic events begin just as the credits unfold.

Somewhere in the Smoky Mountains of North Carolina a cop enters an isolated house. After a wait, a gun goes off inside. Velma and a man carrying a satchel leave their homes, get in their cars and drive off into the night, following some timetable we aren't privy to. As the sun starts to peep over the mountains, the man takes off in a Cessna and Velma parks her car by a tranquil lake, watching impassively until the early morning scene is suddenly disrupted by the Cessna plunging into the water.

This is not the last time something unexpected breaks the tranquil surface of this film, which cares as much about the beauty of the lake and the actress's face as it does about what is in the satchel. Did Velma and her accomplice, a crooked politician named Rafe Taschen (Cliff De Young), fake their deaths to escape prosecution? Did they kill the cop who came to arrest them, or was he in on it? Was Velma really Velma or an actress hired to play her? And what would happen if Mitchell Haven (Tygh Runyan), a director, hired the same actress to play the lead in his film about the case, then fell in love with her?

All will be answered, but not in the usual order. Billed in the opening credits as "A Mitchell Haven Film", "Road To Nowhere" shuttles between that ill-fated production and flashbacks from the film-within-the-film that shed light on Velma's disappearance. Consequently we see Taschen and his lover, a Cuban gangster (Fabio Testi) who is the real Velma's father, plotting over cappuccinos in Verona long before it dawns on us that they are characters in Mr Haven's film too. Mr Hellman's film, the mirror image of that other "Road to Nowhere", is a clever brainteaser, but the greatest pleasures it affords are its moment-to-moment marvels of atmosphere and performance. Long after its surface mysteries are dissipated, film-lovers like Mitchell Haven, who woos his lovely actress by showing her his favourite films, will want to have "Road To Nowhere" to play when they're in the mood, just as if it were a favourite song.

Index | Business Books Quarterly

Business books

Aiming high

We launch a quarterly review of business books by considering six of the best



THERE are few divisions of the book industry with a worse reputation than business publishing. Hundreds if not thousands of business books come out every year, all with glowing press releases and effervescent puffs. Literary editors tend to consign them straight to the bin.

This is understandable. An astonishing number are worthless. Celebrity CEOs blow their trumpets, consultants market miracle cures, self-help gurus promise that you can grow rich by working four hours a week. Wait a few months: the CEOs have been caught with their hands in the till, the miracle cures are poisons, the self-help gurus bankrupt. What remains is a tangle of jargon-ridden prose.

Understandable but wrong. It is silly to dismiss a whole genre just because so many business books are bad. There are some excellent titles in among the dross: CEO biographies that capture something essential about business, useful prescriptions for restoring companies to health, even self-help books that help make sense of the contradictory pressures of modern corporate life. The average employed person in the West spends more waking time in the office than at home, so it makes no sense to be so dismissive of writers who focus on such an important activity.

The best books provide an insight into how business revolutionises the world. Why is the centre of growth shifting from the developed to the developing countries? Why do some companies succeed and others fail? Why are we swapping the white collar for the no-collar workplace? Why do managers say the astonishing things that they say? The answers to these questions lie in the business books that many literary editors so casually toss out.

Some business writers pass Karl Marx's test of changing the world as well as interpreting it. Peter Drucker's 1946 classic, "Concept of the Corporation", made people think of companies as communities rather than just productive units. "The Machine That Changed the World" (1990) by James Womack et al popularised Toyota's manufacturing system with its emphasis on just-in-time parts and proactive workers. Michael Hammer and James Champy's "Reengineering the Corporation" (1993) encouraged companies to sack large numbers of workers even as their profits soared.

This week *The Economist* launches a quarterly review which will highlight a selection of new business books. To introduce this feature we re-examine six classics published over the past half-century or so that illustrate the wide variety

of books that march under the banner of business. They also show how the best books help both to shape the business world and to make sense of it.

Henry Ford is rightly credited with inventing the assembly line-and with it mass production. But it was his great rival at General Motors (GM), Alfred Sloan, who really invented modern professional management. Sloan organised his company into divisions that specialised in cars "for every purse and purpose" and he fashioned a managerial class that turned GM into the world's biggest company. His 1964 book, **My Years with General Motors**, is a cool explanation of how he did it ("management has been my specialisation," he wrote flatly). It is a book that puts subsequent business autobiographies to shame.

William Whyte's **The Organisation Man** (1956) is business journalism at its best, taking us inside the daily life of the giant corporations that dominated American capitalism during its heyday. Organisation men were conformists to their fingertips. They eschewed creativity in pursuit of pleasing their bosses, hitting the numbers and creating what Sloan called "objective organisations" as distinct from those that "get lost in the subjectivity of personalities". Later authors, such as Richard Florida, have tried to examine the demise of "organisation man" and the rise of the creative class, but nobody matches Whyte's ability to mix detailed anecdotes with broad generalisations.

Drucker was the doyen of management gurus-a man who kept up a stream of insightful commentary on business from the 1940s until his death in 2005. Picking his best book is not easy; the inelegantly titled **Management: Tasks, Responsibilities, Practices** (1973) is as good an example as you can get. Drucker explains why "management may be the most important innovation of the 20th century". He traces broad revolutions such as the rise of knowledge workers and the development of voluntary organisations, boosting his argument with stories about the growth of the East India Company and the development of Japanese art.

In Search of Excellence by two McKinsey alumni, Tom Peters and Robert Waterman, was the first business blockbuster, selling millions of copies and demonstrating that consultants could talk to a general as well as a business audience. Many of the companies they profiled performed badly in subsequent years and the book has been heavily criticised since it came out in 1982. But it was a powerful attack on the rationalist school of management which saw workers as mere numbers, and it provided a compelling portrait of how companies work.

Clayton Christensen's **The Innovator's Dilemma** (1997) introduced one of the most influential modern business ideas-disruptive innovation-and proved that high academic theory need not be a disadvantage in a book aimed at the general reader. Mr Christensen showed that great companies can fail despite doing everything right: even as they listen to their customers and invest heavily in their most productive technologies, their markets can be destroyed by radical new technologies.

C.K. Prahalad's **The Fortune at the Bottom of the Pyramid** (2004) unleashed a business revolution that has done far more good than any number of "Live Aid" concerts. Using a wealth of vivid examples, from Indian eye clinics to Mexican cement companies, Prahalad made three powerful points: that consumers who live on less than $2 a day collectively represent billions of dollars-worth of demand, that together they will account for much of the growth in global demand in the future, and that companies that want to reach these markets need to start early and rethink their assumptions about design and distribution. Prahalad, who died last year, is one of the writers who is most admired by developing-world entrepreneurs, from Muhammad Yunus, who founded Grameen Bank in Bangladesh, to James Mwangi, CEO of Kenya's Equity Bank.

Companies and consultancies will buy thousands of books to flatter their CEOs or market their latest "breakthrough" ideas. The temptation for publishers to churn out rubbish should be resisted. Business is going through a particularly fascinating phase, as new technologies disrupt long-established business models, new economic giants shift the balance of economic power and new gurus, many of them from emerging markets, reinterpret the landscape. The need to separate the wheat from the chaff has never been greater.

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Maximum Bob dishes it out

Car guys and creativity



Car Guys vs Bean Counters: The Battle for the Soul of American Business. By Bob Lutz. *Portfolio; 241 pages; $26.95*. Buy from Amazon.com

AFTER two of America's "Big Three" car companies plunged into bankruptcy, the idea of a management book from an executive who worked for them all seems implausible. But Bob Lutz is a legend.

The cigar-chomping former marine began his career with General Motors (GM) nearly 50 years ago and worked for both BMW and Ford. But it was a stint at Chrysler from 1986 to 1998 that confirmed his hero status. During that time he delivered a succession of flashy, fast-selling cars and trucks that concealed the company's underlying weaknesses just long enough to convince Daimler (disastrously) to pay $36 billion for it. Mr Lutz could have rested on his laurels. However, in 2001, at the age of nearly 70, while running Exide, a troubled battery-maker, he answered the call to return to his alma mater, GM.

Rick Wagoner, a GM lifer, had just taken on the top job. Wrestling with the structural problems that finally propelled the world's biggest car company into Chapter 11 in 2009, he at first wanted Mr Lutz to join him as a consultant, to sprinkle stardust over GM's achingly dull range of passenger cars (by contrast its light trucks were competitive and still highly profitable). Mr Lutz said he would only return as head of global product development. He wanted the authority to shift GM's culture away from penny-pinching mediocrity to one that put design before everything. Above all, he thought, the super-analytical approach favoured by GM's senior management was fatally flawed. The best cars had to stir the emotions

of potential buyers and for that you needed the creativity of right-brain types ("car guys" like him) rather than the clever, but left-brain "bean counters" that GM employed in droves.

In this energetic account (there is no mention of a ghost writer), Mr Lutz takes some well-aimed shots at those who conspired to cripple the great American auto industry. He has special contempt for politicians who helped stifle engineering innovation by preferring undemanding, but market-distorting, fuel-efficiency standards to taxing petrol at the same kind of rates that apply in just about every other advanced industrial economy. But his main purpose is to tell the story of the battles he fought to convince the leviathan firm to start making cars that people actually wanted to own and would pay good money to buy. Although fond of blowing his own trumpet, he is not entirely unself-critical, admitting that he would not have made the big bet on China that was by far GM's smartest move in the 1990s.

Sadly, the revival of GM's car-making skills that Mr Lutz inspired was too patchy and not sufficiently established in the minds of consumers (many of whom had given up buying American) to save it. A ground-breaking deal with the unions also came just too late. When the double-whammy of a huge spike in oil prices and the financial crisis struck in 2008, GM, which had lost more than $75 billion in the previous four years as Mr Wagoner struggled to streamline the business, was too weak to find a way through.

Today, after the government bail-out and with its balance-sheet largely rinsed of debt, GM is both profitable and making some quite decent vehicles. One of those is the Chevrolet Volt, an innovative electric car that was Mr Lutz's last great project before he retired. The Volt was not the result of the author's passion for green causes; he once famously described man-made global warming as "a crock of shit". Rather it was his determination to put one over on Toyota. What irked Mr Lutz was the halo conferred on every Toyota by the adulation for its Prius hybrid at a time when the Japanese maker was trying to steal what was left of Detroit's lunch with ever more monstrous pickup trucks and SUVs. Perhaps the real lesson of Mr Lutz's career is that it is not just a dash of creativity that big organisations need, but an implacable desire to beat the competition by building a better mousetrap.

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Memoirs of a banker

Bill of trites

A lot to say about debt



Banker to the World: Leadership Lessons from the Front Lines of Global Finance. By William Rhodes. *McGraw Hill; 288 pages; $25 and pound17.99*. Buy from Amazon.com, Amazon.co.uk

"EVERYONE knows Bill. Everyone trusts Bill." Rupert Murdoch's 2007 tribute to William Rhodes on the 50th anniversary of his joining Citigroup hints at how interesting this retrospective on a stellar career in finance could have been. Unfortunately, nobody had the heart to tell Bill to do a rewrite.

Mr Rhodes is a former vice-chairman of Citigroup, with the ear of a series of the bank's chief executives. He is a veteran of debt-restructuring negotiations in Latin America in the 1980s and 1990s. He headed a series of advisory committees (a term he insisted on over the previous, high-handed label of "restructuring committees") representing international banks in talks with the governments of Argentina, Brazil, Mexico and others. He is an eminence grise of Wall Street, as a very long list of extra-curricular positions attests.

There is rich material here for at least two kinds of book. One is an anecdotal memoir from the heart of international finance. The names sprinkled about in "Banker to the World" include Fidel Castro, with whom Mr Rhodes bet a box of Cuban cigars on the outcome of Nicaraguan debt talks, and Robert Mugabe, whom he had to cut off in mid-flow at a conference (Mr Mugabe took this badly, asking the author on stage if he was related to Cecil Rhodes).

But the appearances of such figures seem designed principally to show Mr Rhodes in a good light. In 2006 he met Xi Jinping, then the party secretary of Zhejiang province and now China's leader-in-waiting. Mr Rhodes is too busy recounting how he arranged the opening of a Citigroup branch in the province to point out Mr Xi's current significance, let alone offer any thoughts on China's next leader.

Another book Mr Rhodes might have written is more technical. As Europe's sovereign-debt crisis dominates headlines, many policymakers are looking back to the lessons of Latin America for guidance, be it Uruguay's decision to lengthen the maturity of its debts or the use of Brady bonds to reduce the region's debt burden. Mr Rhodes was instrumental in cajoling international banks to reach deals with a series of indebted governments and in pushing for "collective action clauses" that bind all creditors to follow the will of a specified majority. But his failure to draw lines from his experiences to today's problems, except in the flimsiest of afterwords, is frustrating. There is virtually nothing on Citigroup's near-death experience during the recent financial crisis.

Instead, he chooses to package his career into a series of trite leadership lessons. Chapters have Maoist-sounding titles like "Lead boldly and decisively" and "Execute in a timely fashion". Each of them is illustrated by three of Mr Rhodes's achievements. This structure means that there is no narrative flow: his first example from Latin America is Uruguay's 2002 restructuring, his next is Argentina in 1993 and his third is Brazil in 1983.

The format also forces Mr Rhodes to search widely for some of his examples. The opening of offices and bank branches is workaday stuff. An agreement to reschedule Nicaraguan debt turns out not to have been met. Citibank's merger with Travelers Group in 1998 may now be seen as a mistake, but Mr Rhodes's hint that things would have turned out better if his own idea of a merger with Bank of America had been pursued is not persuasive.

There are slivers of management gold here, particularly when Mr Rhodes reflects on how to bring a roomful of disparate interests to a consensus: keeping people awake until they will agree to just about anything, for example, or forcing everyone at the table to state their positions on each issue. But for every nugget, there is a lot more that should have been discarded.

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Worldwide business bestsellers

Busy, busy

How to make a fortune

Worldwide business bestsellers
March 1st – June 20th 2011

1. **StrengthsFinder 2.0**
   Tom Rath
2. **The Social Animal: The Hidden Sources of Love, Character, and Achievement**
   David Brooks
3. **The Five Dysfunctions of a Team: A Leadership Fable**
   Patrick Lencioni
4. **The 7 Habits of Highly Effective People**
   Stephen Covey
5. **Good to Great: Why Some Companies Make the Leap...and Others Don't**
   Jim Collins
6. **Switch: How to Change Things When Change Is Hard**
   Chip Heath & Dan Heath
7. **Crucial Conversations: Tools for Talking When Stakes Are High**
   Kerry Patterson, Joseph Grenny, Ron McMillan, Al Switzler
8. **The Millionaire Messenger: Make a Difference and a Fortune Sharing Your Advice**
   Brendon Burchard
9. **The Money Class: Learn to Create Your New American Dream**
   Suze Orman
10. **Strengths-Based Leadership**
    Tom Rath & Barrie Conchie

Sources: Global sales from Amazon.com, Amazon.co.uk, Amazon.ca, Amazon.de, Amazon.fr and Amazon.jp

TO BECOME a world-ranking business writer, who sells thousands of books a month and charges squillions to make after-dinner speeches, it helps to be a) American, b) young and c) a man.

Of the ten most successful business books sold through Amazon's websites around the world over the past three months, only one was written by a woman (Suze Orman), one by an author in his late 70s (Stephen Covey) and one by a non-American native. David Brooks was born in Canada, but rectified that mistake soon afterwards by relocating to New York and then Bethesda, Maryland, where he now writes conservative commentary for the *New York Times*.

If you haven't had the forethought to be born in America, then at least pick your subject with care. Tom Rath, a motivational writer with two books in the world top ten, knows that readers like the evangelical touch mixed into a 12-step programme. He, like others on this list, offers readers advice on how to identify their hidden strengths, become highly effective, learn how to talk the talk, make a tonne of money-and above all avoid becoming sad, dysfunctional and poor. Now, start writing.

Index | Obituary

Brian Haw

Brian Haw, peace campaigner, died on June 18th, aged 62



WHEN Brian Haw sat in his old canvas chair in front of his banner-hung tent in Parliament Square, people kept coming by. Tourists with their cameras. Teenagers drinking beer. Commuters on their way to work. Taxis, vans, bicycles. Bloody big black cars with lying politicians in them. Buses with passengers all on their phones or buried in their papers. Drivers who wound down the car window, not stopping, and shouted "Get a job!"

Wasn't that nice. But he had a job. He had it for ten years in sun, rain, sleet, snow. Never left the square. And his job was this. Get the people to wake up. Get them to realise that the USA and the UK were killing babies. Hundreds were dying every day in this place called Iraq and this place called Afghanistan. He had their photographs on his wall of shame. Bloated, pathetic, missing limbs. Sanctions were killing them. Sanctions and bombs. And especially, check out depleted uranium munitions. That poison was everywhere, in the air, in the water, even between the grains of sand. There wasn't a Hoover in the world big enough to suck up all that shit. And everyone was responsible. Everyone. Raping and pillaging and murdering the world. Just to get that stuff called oil. FOOD YES, BOMBS NO, his banners said. COLAT DAMAGE, NO. A GENOCIDE TOO FAR. STOP KILLING MY KIDS.

People from the whole wide world filmed him on a regular basis. They liked to photograph his old corduroy hat-more badges than hat-which said THE WAR IS THE ENEMY OF THE POOR and SUPPORT US TROOPS-BRING EM HOME! They asked him how he slept. (Badly. How would *you* sleep if 200 babies were dying every day?) They fussed over how he ate. (Mostly chips people brought him and coffee with five sugars. He was lean as a twig. But you know what? People in Calcutta would think he was a king to have so much pavement to live on.) They asked about the mice. They had nested in his sheepskin coat once. He was far more worried about the rats across the road.

When he talked, he sounded tired. He was. Tired of the bollocks. Tired of people not taking responsibility for their inhumaneness to their fellow man. He probably smoked too much, too. Breathed in too much exhaust. Between sentences he would work his stubbly chin as if chewing on unpalatable facts. Then he'd sing:

> Last night I had the strangest dream, I'd ever dreamed before;
> I dreamed the world had all agreed, to put an end to war.

He spoke like an evangelist, because he was one. His parents were Christian, and he'd found Jesus too at Sunshine Corner beach school in Whitstable. After the merchant navy, he went missionising round Redditch in a minivan. He moved to Parliament Square in 2001 to express his Christian outrage about sanctions. Bush's and Blair's wars kept him there. He loved his neighbour's kids as his own because he was a Christian. Other so-called Christians bombed them. Other "believers", also in the square, didn't care. (WESTMINSTER ABBEY, WAKE UP!) If the people who had marched in 2003 against the Iraq war had stayed, like him, the politicians would have thought again.

Police abuse

His megaphone helped spread the message. ARREST GEORGE BUSH, WAR CRIMINAL! HI TONY! 45 MINUTES, MR BLAIR. MR B-L-I-A-R. They could hear him even in the Commons chamber. At first Tony Blair said good old Brian, what a champion of free speech. Yes, he was. He defended the right to free expression in front of Parliament: 350 years of peaceful protest. Some rapper boys from South London came up and hugged him once. They said they totally supported him, fuck Parliament, fuck 'em all. But he wouldn't have that. He just answered Love, Peace, Justice, stop killing my kids.

The authorities soon got tired of him, though. Westminster Council tried to remove him because he was a nuisance and "obstructing the pavement". It failed. By 2005 Tony decided he'd had enough of the name-calling. The Serious Organised Crime and Police Act said Mr Haw had to give six days' notice, if you please, of any demonstration within a kilometre of Parliament. How could he do that? The High Court ruled against it, and said he was legal. But the police never acted as though he was. Any morning they might wake him up with a siren, whoop, whoop, Are you there Brian, yank up his plastic, rifle through his private property right in front of Parliament. Who was abusing whom then? In 2006 78 of them came to tear down his wall of pictures, smashed it, trashed it, left it like a bomb site. Left him with one sign. He stayed, of course.

People asked him about his own kids, seven of them. An off-limits topic. Family was left behind when he came to the square. His wife had divorced him, he'd learned. It wasn't his fault. He hadn't wanted to stay eight bloody years away from them, with the pollution and the drunks who broke his nose and the thugs who shouted "Wanker!" at him. He stayed because he wasn't finished yet. And you know what? It was never fundamentally about free speech and the rights of Englishmen and all that stuff. It was about the dead children. And not walking by.
